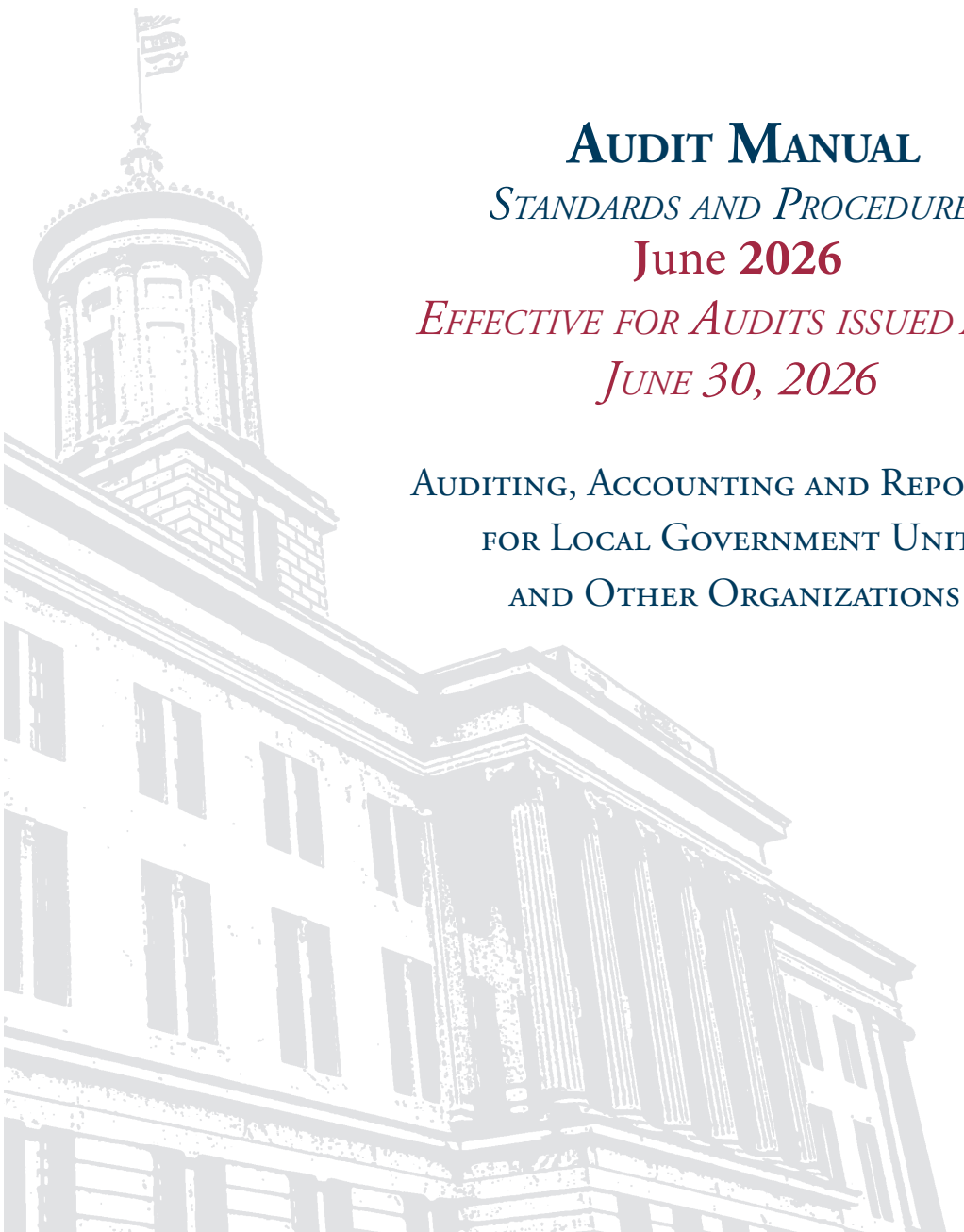
TENNESSEE COMPTROLLER OF THE TREASURY



AUDIT MANUAL

STANDARDS AND PROCEDURES

June 2026

EFFECTIVE FOR AUDITS ISSUED AFTER

JUNE 30, 2026

AUDITING, ACCOUNTING AND REPORTING
FOR LOCAL GOVERNMENT UNITS
AND OTHER ORGANIZATIONS

Jason E. Mumpower
Comptroller of the Treasury



DEPARTMENT OF AUDIT

TABLE OF CONTENTS

PREFACE i

INTRODUCTION ii

SECTION A GENERAL INFORMATION A-1

Comptroller's Responsibility A-1
Auditing Standards and Audit Requirements A-1
Coverage A-2
Audit Period A-3
Legal and Contractual Compliance A-3
Competency A-3
Awarding Audit Contracts A-4
Comptroller's Approval of Audit Contracts A-4
Audits of Group Financial Statements A-4
Auditor Rotation A-5
Multiple Audit Periods A-5
Report Due Date A-5
Delinquent Filings A-6
Special Audit-Related Services A-6
Timeliness of Audit Contracting A-6
Indemnification Clauses A-7
Electronic Contracting and Reporting Requirements A-7
Types of Files that Must be Uploaded if Applicable A-7
Electronic Files A-7
Submitting Revised Information A-9
Consideration of Fraud and Illegal Acts A-10
Comptroller Referrals A-11
Cash Shortages and Other Thefts A-12
Reporting Cash Shortages and Other Thefts A-12
Schedule of Cash Shortages and Other Thefts – Current and Prior Years A-13
Contents of Schedule A-13
Filing of Schedule A-13
Reporting Findings from Regulatory Investigative Reports and Other Sources A-14
Released Reports A-14
On-going Investigations A-15
Example Schedule of Cash Shortages and Other Thefts – Current and Prior Years A-16
Confirmations from State A-17
General Report Outline A-18
Special Reporting Considerations A-22
Current Developments Affecting Reporting and Other Matters A-22

SECTION B REPORTING AND AUDITING REQUIREMENTS
TENNESSEE COUNTIES (INCLUDING RELATED COMPONENT UNITS) B-1

Background B-1
Financial Reporting
General B-2
Additional Requirements of the Comptroller's Office B-2
County Schools – Centralized Cafeteria Funds B-4
Office of Assessor of Property B-4
Compliance and Other Regulatory Reporting Requirements B-5

SECTION C REPORTING AND AUDITING REQUIREMENTS
TENNESSEE MUNICIPALITIES (INCLUDING RELATED COMPONENT UNITS) C-1

Background C-1
Accounting, Books and Records C-2
Financial Reporting
General C-6
Additional Requirements of the Comptroller's Office C-7
Compliance and Other Regulatory Reporting Requirements C-11

SECTION D REPORTING AND AUDITING REQUIREMENTS
SPECIAL PURPOSE GOVERNMENTS (INCLUDING RELATED COMPONENT UNITS) D-1

Emergency Communications Districts D-1
Background D-1
Financial Reporting
General D-1
Additional Requirements of the Comptroller's Office D-1
Compliance and Other Regulatory Requirements D-2
Housing Authorities D-3
Background D-3
Financial Reporting
General D-3
Additional Requirements of the Comptroller's Office D-3
Compliance and Other Regulatory Requirements D-3
Municipal Energy Authorities D-5
Background D-5
Financial Reporting
General D-5
Additional Requirements of the Comptroller's Office D-5
Public Utility Districts D-7
Background D-7
Accounting, Books and Records D-7

Financial Reporting
General D-9
Additional Requirements of the Comptroller's Office D-9
Compliance and Other Regulatory Requirements D-10
Public Charter Schools D-11
Background D-11
Financial Reporting
General D-11
Additional Requirements of the Comptroller's Office D-11
Other Special Purpose Governments D-13
Background D-13
Program Specific Audits D-13
Financial Reporting
General D-13
Additional Requirements of the Comptroller's Office D-13
Compliance and Other Regulatory Reporting Requirements D-15

SECTION E REPORTING AND AUDITING REQUIREMENTS
NONPROFIT ORGANIZATIONS E-1

Nonprofit Organizations E-1
Background E-1
Program-Specific Audits E-2
Financial Reporting
General E-2
Additional Requirements of the Comptroller's Office E-2

SECTION F REPORTING AND AUDITING REQUIREMENTS
FOR-PROFIT ORGANIZATIONS F-1

For-profit Organizations F-1
Background F-1
Additional Requirements of the Comptroller's Office F-2

SECTION G REPORTING AND AUDITING REQUIREMENTS
INTERNAL SCHOOL FUNDS AND CAFETERIA FUNDS G-1

Internal School Funds G-1
Background G-1
Activity and Certain Other Internal School Funds G-2
Background G-2
Auditing Considerations G-2
Financial Reporting
General G-2
Additional Requirements of the Comptroller's Office G-2
Cafeteria Funds G-4
Background G-4

Financial Reporting
General G-4
Additional Requirements of the Comptroller's Office G-5

SECTION H REPORTING AND AUDITING REQUIREMENTS
ENTITIES RECEIVING FUNDS ONLY THROUGH THE MEDICAID WAIVER PROGRAM (DDA) H-1

Background H-1
Financial Reporting
General H-1
Additional Requirements of the Comptroller's Office H-2

SECTION I REPORTING AND AUDITING REQUIREMENTS
PROGRAM SPECIFIC AUDITS I-1

Background I-1
Financial Reporting I-1
State Assistance Only
Option 1 I-1
Option 2 I-2
Federal Assistance Only or Federal and State Assistance (through the State of Tennessee) I-2

SECTION J REPORTING AND AUDITING REQUIREMENTS
MEDICAID COST REPORT ENGAGEMENTS J-1

Reporting Requirements and Agreed-Upon Procedures for Medicaid Cost Report Engagements J-1
Nursing Facilities J-1
Introduction J-1
Medicaid Rules and Regulations J-2
Cost Reporting Requirements J-2
Examinations J-2
Expenses – Criteria J-2
Expenses – Procedures J-3
Resident Days – Criteria J-4
Resident Days – Procedures J-4
Trust Funds – Criteria J-4
Trust Funds – Procedures J-5
Accounts Receivable – Criteria J-5
Resident Accounts Receivable – Procedures J-5
Independent Accountant's Report J-7
Federally Qualified Health Center (FQHC) and Rural Health Clinics (RHC) J-9
Introduction J-9
Medicaid Rules and Regulations J-9

Cost Reporting Requirements J-10
Examinations J-10
Visits and Payments – Criteria J-10
Visits and Payments – Procedures J-11
Expenses – Criteria J-12
Expenses – Procedures J-12
Independent Accountant's Report J-14

SECTION K REGULATORY REPORTING AND REQUIRED FILING K-1

Specialty License Plate Funds K-1
Background K-1
Regulatory Reporting K-1
Local Government Joint Venture Entities K-2
Background K-2
Regulatory Reporting K-2
Volunteer Fire Departments K-2
Background K-2
Regulatory Reporting K-3
Charter Management Organizations K-3
Background K-3
Regulatory Reporting K-3
Direct Appropriation Grants K-3
Background K-3
Required Filing K-4

SECTION L QUICK REFERENCE LINKS L-1

APPENDIX A EXAMPLE SCHEDULES APP.A-1

Schedule of Internal Receivables and Payables APP.A-1
Schedule of Interfund Transfers APP.A-2
Schedule of Changes in Long-term Debt by Individual Issue APP.A-3
Schedule of Changes in Lease Obligations APP.A-4
Schedule of Expenditures of Federal Awards and State Financial Assistance APP.A-5
Schedule of Changes in Property Tax Receivable APP.A-6
Summary Schedule of Prior Year Findings APP.A-7

APPENDIX B CURRENT DEVELOPMENTS AND OTHER MATTERS APP.B-1

Other Matters
Municipal Chart of Accounts APP.B-1
Auditor's Responsibility for Cyber Security Plan APP.B-2
Helpful Resources for Cyber Security Plan Implementation for Utilities APP.B-2

Alternative Compliance Examination Engagement APP.B-3
Lease Information Summary Sheet APP.B-4
Annual CMFO Reporting Requirement for Municipalities APP.B-4
Comptroller's Guidelines for Evaluating Peer Review and Audit Documentation Review APP.B-5
Public Works Funds – Transfers and Employee Benefit Contributions APP.B-5
Additional Reporting Requirements of the Comptroller's Office APP.B-5
School Related Items APP.B-6
Audit Committees APP.B-6
Internal Audit Staffs / Audit Firms and the Use of Internal Audit Staffs APP.B-7
Regulated Industry Accounting APP.B-8
Pensions APP.B-8
New Legislation of Interest for all Local and Special Purpose Governments APP.B-9
Prior Legislation of Interest for all Local and Special Purpose Governments APP.B-11
Closing the Books APP.B-12
Internal Control APP.B-13
Current Developments APP.B-13
Summary of Changes in Auditing and Reporting APP.B-13

APPENDIX C AUDIT PROCEDURES APP.C-1

Centralized Cafeteria Procedures APP.C-1
Other School Systems Cafeteria Procedures APP.C-3

APPENDIX D LAWS, REGULATIONS, AND ATTORNEY GENERAL OPINIONS APP.D-1

Selected Laws Affecting Counties APP.D-1
County Donations to Nonprofit Organizations APP.D-9
State Funding Board's Guidelines on Interest Rate and Forward Purchase Agreements APP.D-10
Guidelines for Closing the Books APP.D-10
Selected Laws Affecting Municipalities APP.D-11
Municipal Donations to Nonprofit Organizations APP.D-16
Municipal Gas System's Donations APP.D-17
Tennessee Board of Utility Regulation, Use Of Utility Revenue, and Subsidies. APP.D-18
Selected Laws Affecting Special Purpose Governments APP.D-19
Emergency Communications Districts APP.D-19
Housing Authorities APP.D-21
Utility Districts APP.D-23
Public Charter Schools APP.D-25
Other Special Purpose Governments APP.D-26

Selected State Laws – General Interest APP.D-27

APPENDIX E MISCELLANEOUS APP.E-1

Audit Procurement Guide – Request for Qualifications APP.E-2

APPENDIX F AUDITS FOR STATE OF TENNESSEE FINANCIAL REPORT APP.F-1

PREFACE

This manual supersedes the April 2026 State of Tennessee Department of Audit, *Audit Manual.* It applies to all entities that report to the Divisions of State Audit, Local Government Audit, and Health Provider Review. Entities include, but are not limited to, local governments, recipients or subrecipients of grant funds or funds from the Department of Disability and Aging (DDA), and nursing facilities, federally qualified health centers, and rural health clinics participating in the TennCare program. This edition is effective for financial reports and audits issued on or after June 30, 2026

The information in this manual is provided to help local governments, other organizations, and auditors gain a basic understanding of Tennessee's governmental environment. The manual includes general auditing and reporting standards and requirements (***Section A***), and specific requirements for individual entity types (Sections B through F). Additional requirements and resources are provided in the following sections. The appendices include selected schedule examples, selected references to Tennessee Code Annotated applicable to counties, municipalities, utility districts, and other organizations, certain suggested audit procedures, current developments, and other miscellaneous information. Please refer to the Table of Contents for a complete overview.

This manual directs Tennessee governmental units, organizations expending funds received as recipients or subrecipients under State of Tennessee grant contracts, other organizations, and auditors to appropriate literature and addresses unique reporting requirements of the Comptroller of the Treasury, State of Tennessee. Detailed information can be found in the appropriate American Institute of Certified Public Accountants (AICPA) industry audit guides, AICPA *Professional Standards*, *Government Auditing Standards,* Governmental Accounting Standards Board *(*GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, standards developed by the Institute of Internal Auditors, etc. To comply with the standards, Tennessee governmental units, organizations expending funds received as recipients or subrecipients under State of Tennessee grant contracts, other organizations, and auditors must be knowledgeable of the most recent changes in accounting and/or auditing standards.

For questions about this manual, please contact the Comptroller of the Treasury.

Local Government Audit	State Audit	Health Provider Review
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Introduction

This manual sets forth, for Tennessee local governmental units, nongovernmental entities expending recipient or subrecipient funds through the state, and other organizations:

- the standards and requirements for audits;
- the accounting and internal control framework that should be followed; and
- various general compliance matters.

By statutory authority, the comptroller of the treasury prescribes the standards and requirements for the audit of local governments, grantee agencies and other organizations. Auditors on the comptroller's staff, internal auditors, and certified public accountants must comply with the comptroller's standards and requirements when conducting applicable audits.

The comptroller of the treasury also prescribes, by statutory authority and contractual provisions, the accounting and internal control framework that should be followed by most entities. That internal control framework is addressed in a manual developed by the Comptroller's Office entitled *Internal Control Manual*, March 2026, posted on the Local Government Audit Manuals Page. That manual states, in part: "**Establishing and maintaining a system of internal controls is required by state and federal law.**"

Other reporting and compliance requirements addressed in this manual are derived from federal and state laws and regulations as well as contractual provisions.

Statutory and Contractual Authority - Audits

Audits - All governments and grantees

Sections 4-3-301–304, Tennessee Code Annotated, establishes the department of audit and requires the comptroller of the treasury, as administrative head of the department of audit to

(1) (A) Perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller of the treasury;

(B) Make annually, and at such other times as the general assembly shall require, a complete report on the post audit, such report to be in the form provided by §§ 8-4-109 [through] 8-4-111 and by any subsequent legislation;

(2) Certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the department of finance and administration, or by the state treasurer, before publication of such statements;

(3) Serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances;

(4) Make annually an audit of all the records of the several counties of the state, including the offices of county trustees, circuit court clerks, criminal court clerks, county clerks, and clerks and masters of chancery courts, and all county mayors and judges of the courts of general sessions, specifically including the accounts of all "trust funds" in the hands of clerks and masters, or county clerks, or both, and any other county official, whether elected or appointed;

(A) In lieu of the audit required under the provisions of this subdivision (4), the department may accept an audit made by an independent certified public accountant. employed at the expense of the county, if the audit made by such independent certified public accountant . . . meets the minimum standards for county auditing established by the comptroller of the treasury, and approved by the governor;

(B) The audit shall be made annually, and copies of the audit furnished to the comptroller of the treasury;

(C) Any county having an audit made by an independent certified public accountant . . . under the conditions prescribed in this subdivision (4) shall be relieved of paying to the state the fee required by § 9-3-210;

(D) Beginning July 1, 1974, the department shall prepare the audit required under the provisions of this subdivision (4) in each county of this state at least once in every five-year period, and shall not accept an audit prepared by a certified public accountant . . . in lieu of a state audit for more than four (4) years in every five-year period beginning July 1, 1974, or may, in such manner as the comptroller of the treasury may determine, participate with or monitor the audit with the independent certified public accountant;

(5) Devise a modern, effective and uniform system of bookkeeping and accounting, subject to the approval of the governor, comprehending:

(A) An efficient system of checks and balances between the officers at the seat of government entrusted with the collections and receipts, custody and disbursement of the revenues of the state; and

(B) A system of bookkeeping and accounting, for the use of all county officials and agencies handling the revenues of the state or of any political subdivision thereof; provided, that the comptroller of the treasury and the governor may approve any existing system;

(6) Perform economy and efficiency audits, program results audits and program evaluations. Any or all of the elements of an audit may be performed, including financial and compliance, economy and efficiency program results and program evaluation;

(7) Require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury, and any such audit reports as may be issued shall be prepared in accordance with standards established by the comptroller of the treasury. No department, agency, institution, board, commission or authority shall cause internal auditing to be performed by persons who do not meet the job specifications for internal auditors established by the commissioner of human resources and approved by the commissioner of finance and administration and the comptroller….

(8) Require that all persons, corporations or other entities receiving grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller of the treasury; and

(9) Establish minimum standards for the performance of audits by the internal audit staffs of local governments, special taxing districts, utility districts, political subdivisions, state departments, boards, commissions, institutions, agencies, authorities or other entities of the state. These standards, which shall be established by the comptroller of the treasury, shall include "Standards for the Professional Practice of Internal Auditing" published by the Institute of Internal Auditors, Inc., or such other standards as may be approved by the comptroller of the treasury. All audit reports issued by such internal audit staffs shall include a statement that the audit was conducted pursuant to these standards…

Audits – Grant Recipients/Subrecipients

Section 4-3-304(8), Tennessee Code Annotated, states that all persons, corporations or other entities receiving grants from or through the state shall cause a timely audit to be performed in accordance with the auditing standards prescribed by the comptroller of the treasury. Please see Sections E and F for specific requirements.

Audits - Municipalities

Section 6-56-105, Tennessee Code Annotated, directs the comptroller of the treasury, as administrative head of the department of audit, to ensure that annual audits are made of the accounts and records of each municipality (and all of the departments, boards and agencies under its jurisdiction) in the State of Tennessee.

Audits – Tourism Development Authority

Section 7-69-109, Tennessee Code Annotated, states that the board of directors of each authority shall cause an annual audit to be made of the books and records of the authority. The comptroller of the treasury, through the department of audit, shall be responsible for determining that the audits are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller of the treasury.

Audits - Utility Districts

Section 7-82-401, Tennessee Code Annotated, states that the department of audit is responsible for ensuring that the audits of utility districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum audit standards prescribed by the comptroller.

Audits - Emergency Communications Districts

Section 7-86-113, Tennessee Code Annotated, states that the comptroller of the treasury, through the department of audit, shall be responsible for ensuring that the audits of emergency communications districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Convention Center Authorities

Section 7-89-110, Tennessee Code Annotated states that the comptroller of the treasury, through the department of audit, shall be responsible for determining that the audits are prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller of the treasury….The audits shall be prepared by certified public accountants or by the department of audit. In the event the governing body of the authority fails or refuses to have the audit prepared, then the comptroller of the treasury may appoint a certified public accountant, or direct the department of audit, to prepare the audit, the cost of the audit to be paid by the authority….Each authority shall prepare an annual report of its business affairs and transactions. A copy of the report and a copy of the annual audit referenced in subsection (a) shall be filed annually with the governing body of the municipality granting permission to the authority to organize.

Audits – Medical School Authorities

Section 7-90-110, Tennessee Code Annotated states that the comptroller of the treasury, through the department of audit shall be responsible for determining that such audits are prepared in accordance with generally accepted governmental auditing standards and that such audits meet the minimum standards prescribed by the comptroller of the treasury. Such audits shall be prepared by certified public accountants or by the department of audit. In the event the governing body of the authority shall fail or refuse to have the audit prepared, then the comptroller of the treasury may appoint a certified public accountant, or direct the department of audit, to prepare the audit, the cost of such audit to be paid by the authority. Each authority shall prepare an annual report of its business affairs and transactions. A copy of such report shall be filed with the municipality granting permission to the authority to organize.

Audits – Comptroller Authorized to Audit Entities

Section 8-4-109, Tennessee Code Annotated, authorizes the comptroller of the treasury to audit any books and records of any governmental organization that is created under and by virtue of

the statutes of the State of Tennessee and that handles public funds when the comptroller deems an audit is necessary or appropriate.

Section 8-4-116, Tennessee Code Annotated, authorizes the comptroller of the treasury to audit the records of any entity contracting with the state or local government entities created under and by virtue of the statutes of the state, if such contracting entity derives fifty percent (50%) or more of its gross revenue from such state or local entity or entities. All books, records, documents, and other evidence pertaining to the receipt, accounting for, use and/or expenditure of any public funds by any such contracting entity shall be available for examination by the comptroller of the treasury.

Audits – Local Governments and Internal Audit Staff

Section 9-3-211, Tennessee Code Annotated, requires an annual financial audit of each office, department, agency, division, or board charged with the care and control of a local government's public funds. Any audit performed by the internal audit staff of such an entity must be in accordance with the standards established by the comptroller.

Audits – Governmental Entities

Section 9-3-212, Tennessee Code Annotated, requires the governing body of each political subdivision, special taxing district, board, commission, educational cooperative, intergovernmental cooperative, or other governmental agency to contract and pay for an annual audit. This section also establishes the comptroller of the treasury's responsibility for ensuring that such audits are performed in accordance with generally accepted government auditing standards and that such audits meet the minimum standards prescribed by the comptroller. Also, the comptroller of the treasury may require additional investigative or review work, to be paid for by the entity.

Audits – Copy Furnished to Comptroller

Section 9-3-213, Tennessee Code Annotated, requires that the auditor furnish a copy of the local government audit report to the comptroller of the treasury at the same time such report is submitted to the body that ordered the audit.

Audits – Public Building Authorities

Section 12-10-109, Tennessee Code Annotated, provides that the comptroller of the treasury, through the department of audit, shall be responsible for ensuring that the audits of public building authorities are prepared in accordance with generally accepted governmental auditing standards and that the audits meet minimum audit standards which shall be prescribed by the comptroller of the treasury.

Audits – Development Districts

Section 13-14-112, Tennessee Code Annotated, requires each development district to submit an annual report of its activities to the governor, general assembly, and commissioner of finance and administration. The annual report shall be audited by the comptroller or an independent public accountant.

Audits – Human Resource Agencies

Section 13-26-106, Tennessee Code Annotated, requires each human resource agency to submit an annual report of its activities to the governor, general assembly, and commissioner of finance and administration. The annual report shall be audited by the comptroller or an independent public accountant.

Audits – Insurance Pools

Section 29-20-401(g)(1), Tennessee Code Annotated, requires an insurance pool, special fund, reserve fund, or legal or administrative entity administering any such pool or fund created and authorized under this section to be audited annually by the comptroller of the treasury or the comptroller's designee.

Audits – Community Corrections

Section 40-36-303(d)(1-3), Tennessee Code Annotated, requires an annual audit of recipients of community corrections funds and states that the comptroller of the treasury shall ensure that the audits of recipients of community correction funds are prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Tennessee Dairy Promotion Committee

Section 44-19-119(c), Tennessee Code Annotated, requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Schools

Section 49-2-112, Tennessee Code Annotated, states that the department of audit is responsible for ensuring that the audits of local school activity and other internal school funds are prepared in accordance with generally accepted government auditing standards and for determining that the audits meet minimum audit standards and regulations prescribed by the comptroller.

Audits – Charter Schools

Section 49-13-127, Tennessee Code Annotated, states that the comptroller of the treasury is authorized to audit any books and records, including internal school activity and cafeteria funds, of any charter school.

Audits – Regional Authorities

Section 64-11-101, Tennessee Code Annotated, provides that regional authorities must file an annual financial audit with the comptroller of the treasury.

Audits – Railroad Authorities

Sections 64-2-111, 112, 211, 212, 311, 312, 411, and 412 Tennessee Code Annotated, require an annual report to be submitted and the various boards to cause an annual audit to be made of the books and records. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Tennessee Central Economic Authority

Section 64-5-113, Tennessee Code Annotated, requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Regional Development Authorities – Greater Nashville Regional Council

Section 64-7-107, Tennessee Code Annotated, requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Medicaid Providers

Section 71-5-130, Tennessee Code Annotated, states that the comptroller of the treasury shall determine payments to Medicaid providers in accordance with rules established by the department of health. To determine payments to providers, the comptroller is authorized to enter into contracts with other state agencies or organizations providing such services. The comptroller, in consultation with the department of health, may require that cost data submitted by providers be certified by a certified public accountant. All cost data submitted to the comptroller's office is subject to audit.

Audits – Medicaid Waiver Program

Contractual agreements with the Department of Disability and Aging (DDA) require agencies contracting under the Medicaid waiver program to have an audit. Although these contracts establish a vendor relationship, the DDA services contract and the DDA provider manual both require that an annual audit be conducted. The types of entities that participate in this program vary widely and include sole proprietorships, limited liability corporations, partnerships, nonprofit corporations, etc. Each agency, regardless of the form it operates under, that expends $1,000,000 or more under these contracts is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

Statutory and Contractual Authority – Accounting/Internal Control

Record keeping – County Hospitals and Nursing Homes

Section 5-21-103(d), Tennessee Code Annotated, states that county hospitals and nursing homes shall establish a system of fiscal management, control, accounting, budgeting, purchasing and cash management that shall conform to generally accepted accounting principles and shall be in substantial agreement with the comptroller of the treasury uniform audit manual, the rules established by the commissioner of education and state law.

Record keeping – Utility Districts

Section 7-82-401(a)(2), Tennessee Code Annotated, states that in all counties and districts, with certain exceptions, the comptroller of the treasury shall prepare a uniform audit manual as is required to assure that the books and records are kept in accordance with generally accepted accounting principles.

Record keeping – Emergency Communications Districts

Section 7-86-304, Tennessee Code Annotated, states that the comptroller of the treasury shall develop a uniform financial accounting system conforming to generally accepted accounting principles for use as required by this section. Effective July 1, 1999, each emergency communications district shall use the uniform accounting system developed by the comptroller of the treasury.

Record keeping – Governmental Entities

Section 9-2-102, Tennessee Code Annotated, states that it is the duty of the department of audit to prescribe a uniform system of bookkeeping, designating the character of books, reports, receipts, and records and the method of keeping them in all state, county, and municipal offices, including utility districts, which handle public funds. Any existing system may be approved by the comptroller of the treasury, subject to the concurrence of the commissioner of finance and administration.

Record keeping – Development Districts

Section 13-14-108, Tennessee Code Annotated, states that the comptroller of the treasury shall develop a uniform accounting system conforming to generally accepted accounting principles for the governing boards operating under this chapter.

Record keeping – Human Resource Agencies

Section 13-26-109, Tennessee Code Annotated, states that the comptroller of the treasury shall develop a uniform accounting system conforming to generally accepted accounting principles for the governing boards operating under this chapter.

Record keeping – Community Service Agencies

Section 37-5-313(a), Tennessee Code Annotated, states that community services agencies shall maintain all books and records in accordance with generally accepted accounting principles, and at no less than those recommended in the *Audit Manual* published by the comptroller of the treasury.

Record keeping – Undercover Investigative Operations

Section 39-17-420(e), Tennessee Code Annotated, states that the comptroller of the treasury and the department of finance and administration, in consultation with the Tennessee bureau of investigation, the Tennessee sheriffs' association and the Tennessee association of chiefs of police shall develop procedures and guidelines for handling cash transactions related to undercover investigative operations of county or municipal drug enforcement programs. The procedures and guidelines shall be applicable to the disbursement of proceeds from the drug enforcement program.

Record keeping – Community Corrections

Section 40-36-303(c), Tennessee Code Annotated, states that the comptroller of the treasury shall develop a uniform accounting system conforming to generally accepted accounting principles for the boards operating under the provisions of this chapter. The uniform accounting system shall be subject to the approval of the commissioner of finance and administration. Upon the approval of the commissioner of finance and administration, each local community corrections advisory board shall establish and maintain the uniform accounting system.

Record keeping – Student Activity Funds

Section 49-2-110(e), Tennessee Code Annotated, states that the department of education shall prepare a uniform accounting policy manual for local school systems, subject to the approval of the comptroller of the treasury and each local school system is required to adopt the manual when issued and maintain all activity fund books and records in accordance with the requirements of the manual.

Record keeping – School Support Organizations

Section 49-2-610, Tennessee Code Annotated, states that the office of the comptroller of the treasury is authorized to adopt a model financial policy for school support organizations.

Record keeping – Local Education Cooperative Agencies

Section 49-2-1304, Tennessee Code Annotated, states that the office of the comptroller of the treasury shall prepare a uniform audit manual to assure that the books and records are kept in accordance with generally accepted accounting principles.

Record keeping – Public Charter Schools

Section 49-13-111(m), Tennessee Code Annotated, requires a public charter school to maintain its accounts and records in accordance with generally accepted accounting principles and in conformance with the uniform chart of accounts and accounting requirements prescribed by the comptroller of the treasury.

Record keeping – Regional Marketing Authorities

Sections 64-10-113 and 213, Tennessee Code Annotated, state that the office of the comptroller of the treasury shall prepare a uniform audit manual to assure that the books and records are kept in accordance with generally accepted accounting principles.

Record keeping – Tennessee Central Economic Authority

Section 64-5-113(c), Tennessee Code Annotated, states that the comptroller of the treasury shall develop a uniform accounting system conforming to generally accepted accounting principles for the authority.

Record keeping – Regional Development Authorities – Greater Nashville Regional Council

Section 64-7-105, Tennessee Code Annotated, states that the regional council shall establish and maintain the uniform accounting system as developed by the comptroller of the treasury and approved by the commissioner of finance and administration in compliance with the provisions of Section 13-14-108, Tennessee Code Annotated, as they relate to development districts.

Record keeping – Solid Waste

Section 68-211-874, Tennessee Code Annotated, states that each county, solid waste authority and municipality shall use a uniform solid waste financial accounting system and chart of accounts developed by the comptroller of the treasury. The comptroller of the treasury is directed to develop a uniform financial accounting system conforming to generally accepted accounting principles for use as required by this section. Such uniform accounting system shall be subject to the approval of the commissioner of finance and administration. Upon such

approval, each county shall establish and maintain the uniform solid waste financial accounting system.

Statutory and Contractual Authority – Miscellaneous Filings

Annual Filing - Specialty License Plates

Section 55-4-202(j), Tennessee Code Annotated, states that by September 30 each year, all nonprofit organizations receiving proceeds from the sale or renewal of a new specialty earmarked license plate shall submit an annual accounting of all such funds received from July 1 to June 30 of the preceding state fiscal year to the comptroller of the treasury. The comptroller of the treasury may audit any nonprofit organization receiving funds from a new specialty earmarked license plate to ensure that the funds are being used in accordance with statutory authority for the plate, and the cost of the audit shall be charged to the nonprofit organization.

Filing - Interlocal Agreements - Creation:

Section 12-9-111, Tennessee Code Annotated, states that any interlocal agreement entered into by local government entities that creates a local government joint venture entity shall be filed in the office of the comptroller of the treasury within ninety (90) days of execution of the agreement.

Filing – Interlocal Agreements – Annual and Updates

Section 12-9-112, Tennessee Code Annotated, requires local government joint ventures to file information with the comptroller's office annually. The statute permits the comptroller to develop guidelines in furtherance of the administration of this section. There are two types of local government joint ventures, those that have an annual audit requirement and those that file unaudited financial information with the comptroller's office.

The requirements for those that must have an annual audit are located in ***Section D*** of this manual.

The requirements for those that are not required to have an annual audit, but must file financial information are located in ***Section K*** of this manual.

Annual Filing – Volunteer Fire Departments

Section 68-102-309, Tennessee Code Annotated, states that the governing board of each recognized volunteer fire department receiving appropriations from the federal government, the state, a county, or a municipality, either directly or indirectly, shall file an annual financial report with the comptroller of the treasury and with each local government body from which the department received appropriations. The annual financial report shall be for the year ended June 30, in a form prescribed by the comptroller of the treasury, and such governing board shall file the report within six (6) months of the close of its fiscal year.

SECTION A
GENERAL INFORMATION

Comptroller's Responsibility

In 1937, the General Assembly created a Department of Audit in Tennessee state government and designated the Comptroller of the Treasury as the administrative head of this department. Various sections of Tennessee Code Annotated set forth the Comptroller's duties for auditing the accounts and records of departments, institutions, and agencies of state and local government.

The Comptroller of the Treasury is the public official in Tennessee responsible for the audit of the various departments, institutions, and agencies of state government; nonprofit or private organizations receiving recipient, subrecipient and other funds from such entities, and Tennessee local governments and political subdivisions. For some of these entities, the Comptroller may accept audits prepared by certified public accountants in lieu of state audits, provided the contracts for such audits are approved by the Comptroller of the Treasury and provided that such audits meet minimum standards established by the Comptroller. Such contracts, excluding those for managed care organizations which must use a specialized contract form, are processed through a web-based application known as the Contract and Report System (CARS). (sample Contract to Audit Accounts) This manual and the related web links address the Comptroller's requirements for auditing such entities.

The Comptroller or the Comptroller's representative has authority to review the certified public accountant's audit documentation and the completed report to determine if standards and procedures prescribed by the Comptroller have been followed. Reviews may take place during the course of the audit or after the completion of the audit report. Such reviews are conducted to improve and give direction to the statewide audit effort.

Auditing Standards and Audit Requirements

The United States Government Accountability Office has published *Government Auditing Standards (GAS)* (Yellow Book) which sets forth the auditing standards required for audits of all federal programs. The audits of Tennessee governmental units, organizations expending recipient or subrecipient funds received under State of Tennessee grant contracts, and other entities subject to audit by the Comptroller shall conform to these standards regardless of whether the agency received federal funding or not. A statement should be added in the auditor's report that the audit was conducted in accordance with *Government Auditing Standards* (generally accepted government auditing standards).

Those governmental units, organizations expending recipient or subrecipient funding and other entities that are subject to any federal audit provisions must comply with those audit standards as well, which can be found at the Office of Management and Budget (OMB) .

The statutory and contractual audit and internal control requirements for different entities are summarized in the introduction of this manual. The internal control documentation requirements for various entities are addressed in the *Internal Control Manual* released by the Comptroller's Office in March 2026. The provisions and documentation requirements of that manual should be considered when evaluating and reporting on internal control in accordance with the requirements of *Government Auditing Standards*.

If, during the course of the audit, it becomes apparent that a disclaimer of opinion or adverse opinion will likely be required, the auditor should contact the Division of Local Government Audit.

Coverage

The audit must generally cover all funds and all offices, departments, agencies, or other units of the entity that collect or disburse funds or provide services or supervise any other assets belonging to the entity. Separate audits may be conducted for one or more departments if deemed necessary by the governing body and if approved by the Tennessee Comptroller of the Treasury.

Program-specific audits must be approved prior to the execution of a Contract to Audit Accounts. ***Section I*** includes general guidance for program-specific audits. Variances from these guidelines must be approved by the Tennessee Comptroller of the Treasury.

For governmental agencies, the reporting entity should be determined in accordance with standards established by the Governmental Accounting Standards Board (GASB). For nongovernmental agencies, the parent and all subsidiaries are normally included in the scope of the audit. Audits of agencies whose audit requirement is driven by funding from the Department of Disability and Aging (DDA) must include the parent and all subsidiaries. Audits of agencies whose audit requirement is NOT driven by funding from DDA, may, if approved by the state funding agency and the Comptroller of the Treasury of the State of Tennessee prior to executing a Contract to Audit Accounts, have an audit that only includes a particular subsidiary.

The auditor must consider materiality for any local government as provided for in the AICPA Audit and Accounting Guide, *State and Local Governments*.

The Comptroller of the Treasury shall require auditors of local governments to express an opinion on each of the opinion units which collectively comprise the basic financial statements required by the GASB Statement 34 financial reporting model. However, except for internal school funds and noncentralized cafeteria funds, a local government, at its option, may engage the auditor to also express an opinion on the combining and individual fund financial statements that are presented as supplementary information accompanying the basic financial statements. The combining and individual fund financial statements for internal school funds and noncentralized cafeteria funds must be covered in the auditor's opinion on the financial statements.

The auditor should address all supplementary information presented in the financial report. An opinion on whether accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. This does not include management's corrective action plan, for which no opinion is required. Minimum requirements for opining on the supplemental information are included in Sections B through H.

Additional audit coverage information specific to the type of entity being audited is located in the respective section(s) in this manual.

Audit Period

Audits should cover at least one fiscal year, 12 months, unless otherwise approved by the Comptroller. Ordinarily, the fiscal year ends on June 30 for Tennessee governmental entities. Unless prohibited by law, other fiscal year-ends may be allowed. All counties, municipalities, and internal school funds have a June 30 fiscal year-end. The fiscal year-end varies for utility districts, housing authorities, other special purpose governments, nonprofit and for-profit organizations.

Legal and Contractual Compliance

The auditor shall determine compliance with legal requirements in the handling of public funds. When presenting findings in the audit report, the auditor is responsible for directing particular attention to violations of federal and state laws and regulations, private acts, charter provisions, the Single Audit Act, Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and recipient/subrecipient contract requirements.

Any reasonable suspicion of fraud discovered during the audit shall be **promptly reported in writing** by the auditor to the Comptroller of the Treasury, State of Tennessee. (See page ***A-10*** for additional guidance and the Comptroller's Fraud, Waste, and Abuse Page for reporting through the online reporting system.)

Competency

Audits must be conducted by either certified public accountants or the audit staff of the Comptroller of the Treasury. All auditors must have adequate training and experience to be competent for their assigned roles in the audit and be in good standing in their profession. An audit firm that receives a peer review rating other than pass is subject to additional scrutiny and may be required to submit their audit documentation for review prior to the release of an audit or to engage an independent CPA firm to perform a pre-issuance review before the release of an audit. Continued ratings other than pass may result in the audit firm not being eligible to conduct audits for the Comptroller of the Treasury. Possible actions taken for conditions identified during audit documentation reviews include; accelerated reviews, additional CPE, contracted independent audit documentation review before report release, limitation of contracted audits, honoring current contracts only, rescinding outstanding audit contracts, or any other action(s) agreed on by the Comptroller's Office. Additional information regarding actions that may be taken by the Comptroller of the Treasury can be found on the web at Local Government Audit's Accounting & Auditing Information Page, General Guidance tab, in the document titled "Peer Review and Audit Documentation Reviews".

Awarding Audit Contracts

Section 12-3-1209, Tennessee Code Annotated, does not allow counties, municipalities, metropolitan governments, utility districts, and other municipal and public corporations of this state to award audit contracts based on competitive bids. The audit contracts must be awarded on the basis of recognized competence and integrity. Although competitive bidding is prohibited, interviews may be conducted to determine the capabilities of eligible persons or groups.

The Comptroller's Office encourages all organizations to require audit firms to complete and submit a Request for Qualifications. The Request for Qualifications provides information that is extremely beneficial in evaluating whether an audit firm possesses the necessary capabilities to conduct an audit of the organization. (***Sample Request for Qualifications – Appendix E***) If an audit organization needs to include a basic contract form in the request for qualifications, a "sample" fill-in pdf contract can be accessed on the Comptroller's website under Helpful Links at the Contract and Report System (CARS)

Comptroller's Approval of Audit Contracts

The Comptroller has prescribed a uniform audit contract for (1) local and special purpose governments, nongovernmental organizations that meet the definition of a recipient or subrecipient, various other organizations that are required, by contract provision or miscellaneous TCA requirements, to have an audit and (2) managed care organizations contracting with the state's TennCare Program. Managed care organizations (MCOs) must use an electronic contract which can be found on the web at the Contract to Audit Accounts of MCOs following the guidelines detailed later in this section. All other organizations are required to use the web-based application known as CARS for executing the contract to audit accounts. The details for using this system are accessible through the CARS application. Regardless of the method used, the contract should be properly executed and approved by the Comptroller before any audit work is begun.

Entities must use the Comptroller's Contract to Audit Accounts form (Contract to Audit Accounts) which is embedded in CARS. Managed care organizations must use a specialized contract form (Contract to Audit Accounts of MCOs). The Comptroller will not approve a retyped contract for managed care organizations, or any contract not executed through CARS for all other organizations.

Audits of Group Financial Statements

Section 8 of the Contract to Audit Accounts includes provisions to address certain requirements related to auditing requirements in the AICPA, *Professional Standards*, AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)*. The changes, though included in all audit contracts, only apply to those organizations/funds (components) whose financial statements are included in a county that is audited by the Division of Local Government Audit. When the contract to audit accounts is executed, an individual with the Division of Local Government Audit will contact you by email, as noted in the contract. If you have further questions regarding your role in the group audit, please contact our office.

Auditor Rotation

While *Government Auditing Standards* do not require mandatory audit firm rotation; they identify a long association between senior engagement personnel and an audited entity as an example of a circumstance that creates a threat to independence. When the same audit firm or senior engagement personnel serve a local government for multiple consecutive years, auditors should evaluate whether a familiarity, self-interest, bias, undue influence, and other threats to independence exist. Identified threats should be evaluated both individually and in the aggregate for significance in accordance with *Government Auditing Standards*. When identified threats are not at an acceptable level, the audit firm should take appropriate action to eliminate or reduce them to an acceptable level by applying safeguards, or if necessary, withdrawing from the engagement. Identified threats and the safeguards applied should be documented.

Local governments are encouraged to periodically evaluate and select audit services through a qualifications-based procurement process in accordance with Tennessee Code Annotated § 12-3-1209(a). Audit services should be awarded based on recognized competence, integrity, and professional qualifications rather than competitive solicitations. An Audit Procurement Guide is provided in ***Appendix E***. If firm rotation is not practical due to the limited availability of qualified governmental audit firms, other safeguards may be considered, such as rotation of senior engagement personnel, an independent engagement quality review, review by personnel not previously assigned to the engagement, or consultation with another qualified auditor.

If the Comptroller determines that an audit firm has not maintained independence, including failing to establish appropriate safeguards for threats created by auditing the same entity for an extended period, the Comptroller may deny approval of the audit contract.

Multiple Audit Periods

If the uniform contract includes more than one annual audit period, financial reporting shall conform with the guidelines in ***Section A***, Special Reporting Considerations, and Sections B through H of this manual, as applicable.

Report Due Date

The contract to audit accounts establishes the date by which the audit report shall be submitted. While financial reports must typically be submitted no later than six (6) months following the fiscal year end, various circumstances may necessitate a different filing time frame. Certain known circumstances where an earlier submission date is required are noted below.

- Certain standards governing group audits may require a report to be submitted by an earlier date. Auditors conducting audits of funds and/or component units of a primary government may be requested to change the filing date (modified due date) either during the contracting process or after the contract is executed, in order to facilitate the group audit.
- Certain audits are contracted through Local Government Audit that are included in the State of Tennessee's audit report. Those audits with fiscal years ending on June 30 are due by October 31 of that same year. Please refer to ***Appendix F*** for a list of these entities.

When considering approval of a contract to audit, the Comptroller will evaluate the circumstances related to previous audit reports that have not been submitted or were submitted after the due date or modified due date.

Delinquent Filings

Sometimes circumstances occur that result in an audit report being filed after the due date or require a date later than six (6) months following the fiscal year end to be entered on the contract. These should NOT be regular occurrences because it constitutes delinquent filing.

If the contractual filing date is anticipated to be greater than six (6) months following the fiscal year end, you must contact the Comptroller's Office prior to completing the contract. After the contract is signed, if it appears that the report will be filed after the contracted filing date, a notification communicating the reason for the delinquent filing should be submitted through the CARS system.

In either of the above situations, the entity should assess whether the delinquent audit report submission affects other required filings and notify all relevant parties, such as lenders, grantors, bond counsel, regulatory boards, etc., to the extent required by applicable agreements, regulations, or reporting requirements. A particular emphasis should be placed on due dates for entities subject to the requirements of the following organizations: the Tennessee Local Development Authority (TLDA), Electronic Municipal Market Access (EMMA), and the U.S. Office of Management and Budget.

Special Audit-Related Services

If there is any special audit-related services agreement in place at the time of the audit contract submission, it should be attached as a miscellaneous file to the contract. Any existing agreement(s) will be reviewed and taken into consideration during the review and approval or disapproval of the submitted contract to audit accounts.

When a certified public accountant is considering conducting a special audit-related service, including agreed-upon procedures, that was not included in the audit contract approved by the Comptroller, the auditor must notify the Comptroller of the proposed work. A contract, explaining the nature and extent of the engagement, must be approved by the Comptroller's Office before any work is started.

Timeliness of Audit Contracting

The timing of submission of audit contracts can affect the timeliness of the audit. As a rule, audit contracts should be executed before the end of the fiscal year to be audited. However, contracting for the audit of internal school funds (i.e., activity funds, noncentralized cafeteria funds, and other internal school funds) and for additional audit procedures for centralized cafeteria systems in counties and special school districts is different. Because some of the audit procedures conducted on behalf of the Division of Local Government Audit **must** be conducted while school is still in session, all county schools should contract by September 30 of the fiscal year to be audited (nine months **prior** to the end of the fiscal year). The contract to audit accounts should address the additional audit procedures related to centralized cafeteria funds in the special provisions section of the contract.

Indemnification Clauses

The Office of the Attorney General, State of Tennessee, Opinion 93 – 01 states:

> A contract provision which requires that a local governmental entity indemnify or hold harmless another governmental entity or a private party beyond the liability imposed upon that entity by law is unenforceable because it appropriates public money and abrogates governmental immunity without the authorization of the General Assembly.

Based on this opinion, a local government does not have the power to enter into an indemnification clause. These clauses should be avoided in the audit contract.

Electronic Contracting and Reporting Requirements

Guidelines and requirements for CARS are included in the Helpful Links section of the main web page for the CARS application. Selected requirements related to the types of files that may be uploaded and electronic reports are included below; however, firms and their clients are responsible for complying with all CARS requirements.

Types of Files that Must be Uploaded if Applicable

File Content	File Type	ADA Accessibility Required
Annual Audit Report/ Annual Financial Report	PDF	Yes
Audit Conclusions – Comptroller's Referral Letter	PDF	
Chart of Accounts Crosswalk	Excel	
Compliance Examination Engagement	PDF	
Federal Form 990 (Specialty License Reporting)	PDF	
Management Letter	PDF	
Schedule of Cash Shortages and Other Thefts	PDF	
Separate Single Audit	PDF	Yes
Specialty License Plate Annual Accounting	PDF	
Unaudited Financial Information	PDF	
Written Attestation TCA 4-1-422	PDF	

Electronic Files:

With the exception of the written attestation form required for compliance with TCA Section 4-1-422 and certain agencies that file unaudited information or that file a courtesy report with our office (See guidance in ***Section K***), electronic reports, related management letters, letters to those charged with governance, and other required files may only be filed by the audit firm.

Annual audit reports, annual financial reports, and separate single audit reports are uploaded to our website upon receipt. When a report revision is required, the

report is removed from our website. The revised report is posted to our website upon receipt.

The following guidelines should be followed for electronic file submissions:

1. Electronic files must be submitted in the applicable file type indicated in the above table.

2. Because (a) annual audit reports, (b) annual financial reports, and (c) separate single audit reports are uploaded to our website upon receipt, such reports must be submitted in compliance with Level A and Level AA success criteria and requirements specified in the Web Content Accessibility Guidelines ("WCAG") 2.1 as required by Title II of the Americans with Disabilities Act ("ADA"). This requirement applies to reports submitted on or after April 26, 2027. WCAG 2.1 requirements are available at the following weblink Web Content Accessibility Guidelines. These requirements include, but are not limited to, the following:

    a. Use proper document tagging. All PDFs must include a complete and accurate tag structure to ensure compatibility with screen readers. Headings, paragraphs, lists, and tables should be tagged correctly and in the proper reading order;

    b. Include bookmarks for navigation. Lengthy documents should include a structured set of bookmarks that reflect major sections and headings;

    c. Providing informative alternative text for all images and non-text content contained in the report that describes the image and its purpose;

    d. Ensuring information presented in graphs, pie charts, or similar visuals: (a) do not rely on color, shape, or position alone and provide additional visual indicators when relying on one indicator alone; (b) maintain adequate contrast levels as specified in WCAG 2.1, (c) provide icons, labels, or patterns; and (d) clearly distinguish links (e.g., by using underlines and sufficient contrast);

    e. Set document properties to include a descriptive title and specify the document language in the PDF properties; and

    f. Maintaining consistency in page names, section labels, and terminology.

3. The electronic report must be indistinguishable from any paper copy(ies) issued.

4. Security settings must allow printing and commenting.

5. Document quality should be sufficient to allow for clear viewing and printing. Scan quality can be improved by modifying the settings on your scanner. The default settings on your scanner may need to be changed.

6. Pages should be in the proper order and should generally be oriented for reading purposes. When a financial statement cannot fit on a single page, the paging in the report should allow the entire financial statement to be viewed on facing pages. This may require blank pages to be inserted intentionally in a similar fashion to a paper report. The order of information in the report should comply with the general report outline in the *Audit Manual*.

7. Management letters that are not included in the table of contents of the audit report should be uploaded in a separate file from the audit report. Any information included in the audit report file will be posted to the Division of Local Government Audit's website.

8. A separately issued management letter should be electronically submitted at the same time the electronic report is submitted. If the management letter has not been issued at the time the report is released, please notify us when submitting the financial report and then submit the management letter as soon as it is issued.

9. The independent auditor's report, report(s) on internal control and compliance, management letter, and any other auditor communication must be on letterhead.

10. All auditor communication should include a printed or graphic electronic signature.

11. Electronic file bookmarks in portable document format (pdf) should include bookmarks at least as detailed as the table of contents.

12. Electronic files will be renamed to meet our internal standardized naming conventions.

13. Electronic reports must be searchable.

Submitting Revised Information

If you must resubmit any information, only include those files that have changed. Unchanged files should not be resubmitted. That is, if a page within the audit report must be modified, but no modification is required for a management letter that was submitted, then only the complete audit report file should be resubmitted.

Consideration of Fraud and Illegal Acts

The auditor is responsible for performing risk assessment procedures and developing an audit plan for each audit. No one audit plan will suffice for every audit and no group of audit steps is comprehensive enough to cover all circumstances. As noted below, the auditor has responsibilities for notifying the Comptroller if their audit procedures reveal any reasonable suspicion of fraud.

Section 7 of the Contract to Audit Accounts stipulates the following:

> Any reasonable suspicion of fraud (regardless of materiality) or other unlawful acts including, but not limited to, theft, forgery, credit/debit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in Tennessee Code Annotated, Title 39, Chapter 16, Part 402, involving public money, property, or services shall, upon discovery, be **promptly reported in writing** by the auditor to the Comptroller of the Treasury, State of Tennessee, who shall under all circumstances have the authority, at the discretion of the Comptroller, to directly investigate such matters. Notwithstanding anything herein to the contrary, the Comptroller of the Treasury, State of Tennessee, acknowledges that the auditor's responsibility hereunder is to design its audit to obtain reasonable, but not absolute, assurance of detecting fraud that would have a material effect on the financial statements, as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. If the circumstances disclosed by the audit call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the organization's management and those in charge of governance in writing of the need for such additional investigation and the additional compensation required therefor. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's management and those charged with governance and the auditor for such additional investigation.

In order to comply with this requirement, the auditor should describe the suspected fraud in as much detail as possible. If known, information about the names and positions of suspected individual(s) involved, dates, amounts, records involved, how the fraud was discovered, etc. should be included. All instances of fraud, regardless of materiality, should be reported.

Although the above requirements have been in place for many years, we have had different situations where audit firms have failed to meet their contractual obligation as referenced above.

The Tennessee State Board of Accountancy will be notified of failures to meet the above referenced contractual obligations so that they may take whatever disciplinary action they deem appropriate.

Comptroller Referrals

The Comptroller's Office receives notifications from local governments, independent certified public accounting firms, private citizens, and other concerned parties regarding potential fraud, waste, and abuse of public funds. Local governments are required to report unlawful conduct to the Comptroller's Office in compliance with the Local Government Instances of Fraud Reporting Act and certified public accountants are contractually required to report all such matters to the Comptroller's Office.

Certain notifications received by the Comptroller's Office are referred to an entity's contracted auditor for consideration as part of their annual audit. The audit firm will receive a letter from our office summarizing the nature of the concerns addressed in the notification as well as the firm's responsibilities regarding the referral. Please upload a written summary of your audit conclusions on firm letterhead to our online Contract and Report System (CARS).

The matters included in the referrals can often be addressed during the annual audit process under compliance testing and the internal control evaluation. If the matters disclosed in the referral call for a more detailed investigation, the auditor should inform management and those in charge of governance in writing of the need for such additional investigative procedures and the additional compensation required. Upon approval by the Comptroller of the Treasury, an amendment to the existing Contract to Audit Accounts can be executed by the organization's management and those charged with governance and the auditor for such additional fees.

Cash Shortages and Other Thefts

The reporting grid below illustrates the reporting requirements of the Comptroller's Office as compared to *Government Auditing Standards* when reporting fraud. In light of public accountability for entities that are funded wholly or in part with public dollars, the Comptroller's Office requires that MOST instances of fraud, regardless of materiality, be communicated to those charged with governance in the report on internal control over financial reporting and on compliance and other matters. In addition, MOST instances of fraud should be reported in a schedule of cash shortages and other thefts (described below).

Instances of Fraud (Includes Cash Shortages and Other Thefts)	**GAGAS Requirement**	**Supplemental Comptroller Requirements**
Instances of fraud that have a material effect on the financial statements or other financial data significant to the audit objectives. (*GAS* 6.42)	Communicate in the report on internal control over financial reporting and compliance and other matters. (*GAS* 6.42)	Also report in a schedule of cash shortages and other thefts – current and prior years.
Any other identified or suspected instances of fraud that warrant the attention of those charged with governance. (*GAS* 6.45(b))	Communicate in in writing to audited entity officials. (*GAS* 6.45)	Also report in (a) the report on internal control over financial reporting and compliance and other matters as a finding; and (b) for amounts greater than or equal to $1,000 in a schedule of cash shortages and other thefts – current and prior years.
Instances of fraud that do not warrant the attention of those charged with governance.	No identified requirement.	1) for situations involving amounts greater than or equal to $1,000, regardless of materiality or significance, report such matters in (a) the report on internal control over financial reporting and compliance and other matter(s) as a finding; and (b) a schedule of cash shortages and other thefts - current and prior years. 2) for situations involving amounts less than $1,000 AND where management or the board is involved in the matter report such matters in (a) the report on internal control over financial reporting and compliance and other matter(s) as a finding; and 3) for situations involving amounts less than $1,000 AND where management or the board is not involved in the matter, report such matters. (a) to management in writing and submit a copy of the management letter through CARS with the audit report submission.

Schedule of Cash Shortages and Other Thefts – Current and Prior Years

All instances of cash shortages and other thefts, except as noted in the grid above, should be reported. "Other thefts" do not include thefts by outside parties (e.g. burglary). Criminal thefts by parties not associated with the reporting entity do not have to be reported as a finding or in the Schedule of Cash Shortages and Other Thefts. The schedule should encompass all fraudulent matters identified during the audit. For example, issues discovered during normal audit procedures, issues addressed in investigative reports issued by the Comptroller or a state or federal agency, and issues developed internally by the auditee or internal audit staff should be reported. Other sources may include reports by local law enforcement agencies or other organizations that the independent auditor becomes aware of during the normal course of their audit.

The information in this schedule may be included in an annual report published by the Division of Local Government Audit and made available to the public on our website.

Contents of Schedule

The schedule should include the information and follow the format presented in the example schedule below. The schedule shall include the status of **all** current and prior year cash shortages, other thefts and fraud, except as noted in the grid above.

All shortages, regardless of when they were initially reported, shall be tracked on the schedule until complete restitution has been collected or the governing body has taken and documented an official final action (write-off, insurance collection, etc.). Normally, write-offs would require action by those charged with governance.

The *explanations of cash shortages* section should detail the following information:

- A number that corresponds to the line item in the schedule;
- The fiscal year the cash shortage/other theft was first reported in the audit report;
- The amount of the shortage/other theft;
- The department (as applicable);
- A brief discussion of the nature of the shortage/other theft;
- Reference to the separate regulatory investigative report, as applicable; and
- The disposition at the end of the entity's fiscal year, including the status of resolution (e.g., restitution, insurance recovery, amounts written off by the governing body, indictments, etc.). Any information regarding the disposition of the fraud after the entity's fiscal year end should also be included.

Filing of Schedule

This schedule is not part of the audit report. The schedule should be submitted by the independent auditor in a separate pdf format file through CARS at the same time the audited financial statements are submitted.

Reporting Findings from Regulatory Investigative Reports and Other Sources

Released Reports

If the Comptroller's Office or a state or federal regulatory body has publicly released an investigative report during the contracted audit period or during the auditor's fieldwork for that audit, regardless of the period covered in the report:

- The report must be considered when conducting the audit and when reporting on internal control and compliance. Auditing standards require that investigative reports and other evidence of internal control weaknesses, cash shortages, and other thefts be considered in developing the current audit strategy.

- Relevant matters from the investigative report should be addressed in the annual financial report and referenced to the investigative report, i.e., in the notes to the financial statements, the internal control and compliance report(s) and/or the management letter or letter to those charged with governance, as appropriate under current auditing standards. Those matters that are derived from a regulatory investigation and reiterated in the auditor's report on internal control and compliance and other matters should reference the investigative report. Please note that auditing standards require the auditor to obtain and document sufficient audit evidence in the working papers to support the reiterated findings based on the auditor's work and not solely based on the work of other auditors. Audit evidence can be obtained in a variety of ways including, but not limited to, inquiry, results of transaction testing, etc.

- Findings developed from internal investigations, reports by law enforcement agencies, or reports of other organizations should be considered and reported in a manner similar to regulatory investigative reports.

- Cash shortages and other thefts identified in a regulatory investigative report should be reported in accordance with the supplemental Comptroller requirements as outlined in the reporting grid above.

- For regulatory investigative reports issued during the auditor's fieldwork that are outside the scope of the audit, the following guidance should be followed when reporting fraud:

    a. If the fraud occurred prior to the current audit period and the fraud was not addressed in a prior audit period, the auditor should report the fraud in the report on internal control and compliance and other matters of the current period.

    b. If the fraud occurred after the current audit period, the fraud should be reported in the internal control and compliance and other matters report of that subsequent period. The notes to the financial statements of the current audit period should disclose the fraud as a subsequent event if it meets applicable disclosure criteria.

On-going Investigations

In situations where there is an on-going fraud investigation, the auditor should follow the standards for determining the reporting and disclosure requirements in the annual financial report and auditor's reports. If the release of the annual financial report will be delayed due to an on-going fraud investigation, the auditor should contact the Division of Local Government Audit.

Town in Tennessee
Example Schedule of Cash Shortages and Other Thefts – Current and Prior Years
For the Period July 1, 20XX through June 30, 20XX

	Fiscal Year First Reported	Department (This column may not always be applicable depending upon the type of local government.)	Original Audit Finding Number/ Reference	Original Amount of Shortage	Beginning/ Carry-Forward Balance	Current Year Shortage	Current Year Reductions (Collections and other Decreases)	End of Year Balance
1	20XX	General Government	20XX-002	$ 14,500	$ -0-	$ 14,500	$ -0-	$ 14,500
2	20XX	Highway and Streets	20XX-007	1,200	-0-	1,200	1,200	-0-
3	20XX	Board of Education	20XX-005	15,000	14,000	-0-	1,000	13,000
4	20XX	Water and Sewer	20XX-012	3,500	3,500	-0-	3,500	-0-
5	20XX	Police Department	20XX-002	10,000	10,000	-0-	10,000	-0-

Explanations of Cash Shortages

1. General Government
The audit for the 20XX year reported a cash shortage of $14,500. An investigative report issued by the Tennessee Comptroller of the Treasury in February of 20XX revealed that from May 20XX through October 20XX, the bookkeeper fraudulently issued checks totaling $14,500 for personal use.
Disposition: At June 30, 20XX, no restitution payments had been made. In March of 20XX the bookkeeper was found guilty of theft of $10,000 or more, sentenced, and ordered to pay restitution totaling $14,500 to the municipality.

2. Highways and Streets
The audit for the 20XX year reported a cash shortage of $1,200 in the street department. An employee claimed hotel and per diem meal reimbursements for an extra day of weekend travel that was not for an authorized municipal purpose.
Disposition: As of June 30, 20XX, complete restitution had been made. The employee was required to repay the amount to the municipality and was dismissed from employment.

3. Board of Education
The audit for the 20XX year reported a cash shortage of $15,000 at the Board of Education. This shortage resulted from the misappropriation of petty cash funds by a municipal employee. The employee admitted to taking the petty cash funds and was subsequently terminated by the Board.
Disposition: The former employee is making annual restitution payments of $1,000 until the amount is paid in full.

4. Water and Sewer Department
The audit for the 20XX year reported a theft of $3,500 in the water and sewer department. The department's cell phone bills for January and February of 20XX reflected $3,500 in charges for text messages for one employee.
Disposition: The employee confessed that the charges were for personal use and agreed to reimburse the town for the charges. The employee subsequently left employment with the town and did not repay the amount owed. An insurance payment related to the theft of $3,500 was received during the current year.

5. Police Department
The audit for the 20XX year reported a theft of $10,000 in the police department. A special investigation was conducted by the Tennessee Comptroller's Office and is addressed in their report released in May of 20XX. The theft was a result of confiscated drug funds being stolen by an employee of the department.
Disposition: The employee was terminated as a result of the theft. The town does not intend to seek restitution and recovered $8,000 of the theft from insurance proceeds during the current year. The governing body has written off the remaining $2,000 as uncollectible. The theft has been reported to the local district attorney and is awaiting trial.

Confirmations from State

Certain state confirmations related to counties, municipalities, and school food service funds are distributed by the Division of Local Government Audit of the Comptroller's Office on the web. For additional information regarding online confirmations, please see the Comptroller's website (***ONLINE CONFIRMATIONS - LOCAL GOVERNMENT AUDIT***). If you need additional information, the division's mailing address and FAX number are:

Comptroller of the Treasury
Division of Local Government Audit
Cordell Hull Building
425 Rep. John Lewis Way N.
Nashville, Tennessee 37243

FAX (615) 741-6216

General Report Outline

All financial reports submitted to the Comptroller of the Treasury must comply with the following General Report Outline. Unique requirements related to each entity type (county, municipality, utility district, etc.) can be located in Sections B through H, as applicable.

The financial section for a component unit should conform with the General Report Outline and include the minimum content of a component unit financial report as prescribed by GASB pronouncements, and should encompass all funds of the audited entity.

All audit reports shall include the following information, as applicable, and should conform to the following outline.

I. Introductory Section

A. Table of contents;

B. Letter(s) of transmittal;

C. Roster of officials (does not apply to for-profit entities);
The roster of officials should include a list of all board members, the management officials who are responsible for the financial statements, and the members of the audit committee if the entity has one. During periods of transition, the roster should include board members and management officials in office during the period under audit. Entity specific variations are as follows:

- Boards of Education, Charter Schools, and Internal School Funds should also include the Director of Schools/Superintendent. Listing of principals for each school is optional.

- Other Special Purpose Governments, DDA Organizations, and Nonprofit Organizations with a board that exceeds twelve (12) members may choose to limit the listing to include no less than those board members holding the secretary, treasurer, and chairman of the board positions.

D. Any other material deemed appropriate by management.

II. Financial Section

A. Auditor's Report on the Financial Statements, which shall state that the audit was performed in accordance with *Government Auditing Standards* (generally accepted government auditing standards). Please refer to the AICPA Audit and Accounting Guides for *State and Local Governments* and *Government Auditing Standards and Single Audits* for reporting guidance.

The Comptroller of the Treasury shall require auditors of local governments to express an opinion on each of the opinion units which collectively comprise the basic financial statements required by the GASB Statement 34 financial reporting model. However, a local government at its option may engage the auditor to also express an opinion on the combining and individual fund financial statements that are presented as supplementary information accompanying the basic financial statements.

The auditor should address all supplementary information presented in the financial report. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. This does not include management's corrective action plan, for which no opinion is required. Minimum requirements for opining on the supplemental information are included in Sections B through H.

B. Management's Discussion and Analysis

C. Financial statements of the organization (refer to Sections B through H for additional information for a particular type of entity), including Notes to the Financial Statements.

D. Required Supplementary Information (GASB or FASB)

E. Supplemental information (refer to Sections B through G for additional information for a particular type of entity). The auditor should include a report on the supplemental information. This report may be separate or a part of the Auditor's Report.

F. Schedule of Expenditures of Federal Awards and State Financial Assistance (could be included in the Single Audit section of the report).

This schedule must identify the various programs under which the organization expended (federal and state grant funds). The minimum amount of information is set forth in Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). An example schedule is included in ***Appendix A***.

- This schedule is required whenever any amount of state and/or federal funds was expended.
- The title may change when no federal funds or no state funds were expended.
- Federal and state grant expenditures may be presented on a combined schedule or two separate schedules.
- A schedule is required even when all grant funds were received directly from the federal government.
- When the Single Audit Act is not applicable, the minimum schedule and note requirements are federal agency, state agency, pass-through agency, assistance

listing number, state contract number, amount provided to subrecipients, expenditures, and basis of presentation.

- Assistance in the form of loans must separately identify both the federal and state portions.

III. Statistical Tables (as required by GAAP, if an ACFR is issued)

IV. Internal Control and Compliance Section/ Single Audit Section (as required by the *Uniform Guidance* and *GAS*)

A. All audits performed for the Comptroller's Office shall be conducted in accordance with generally accepted government auditing standards. Audits that are subject to the provisions of the *Uniform Guidance* shall include the additional reporting requirements outlined in it.

B. Audits conducted in accordance with *Government Auditing Standards* that are not subject to the federal *Uniform Guidance* audit and reporting requirements should include the internal control and compliance report as part of the audited financial report.

C. Audits conducted pursuant to the requirements of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* have the following options:

- Include the internal control and compliance reports required by *Government Auditing Standards* and federal *Uniform Guidance* requirements as part of the audited financial report.

- Submit the internal control and compliance reports required by *Government Auditing Standards* and federal *Uniform Guidance* requirements as part of a separate single audit report.

- If a separate single audit report is issued, it should be submitted at the same time the audited financial report is uploaded in the Comptroller's online Contract and Report System (CARS).

D. Separate Schedule of Findings and Questioned Costs.

E. All findings addressed in the reports should include all required components addressed in GAS (including management's responses) and should be numbered and titled in a manner consistent with the *Uniform Guidance*, whether applicable or not. Refer to the Schedule of Prior Year Findings and Questioned Costs in ***Appendix A*** for additional guidance.

F. Audit finding titles should be clear, concise, and informative, providing an immediate understanding of the issue identified.

G. Auditors are reminded of the following additional reporting and communication requirements prescribed by the Comptroller's Office:

- Separate written communications with management or those charged with governance that address audit findings (including those deemed to be inconsequential or only matters of efficiency, effectiveness and best practices) must be submitted to the Comptroller.

- Separate written communications with management or those charged with governance must not contain any reportable instance of noncompliance or other matters or significant deficiencies in internal control that were not disclosed in the findings found in the published audit report.

V. Summary Schedule of Prior Year Findings Requirements for Local Governments and Nonprofits.

This schedule must:

a. be presented in a separate section of the audit report
b. include the original finding title and number
c. include the prior year finding number
d. indicate whether the finding is corrected, partially corrected, or not corrected
e. include the current year finding number, if applicable
f. describe the reasons for the audit finding's recurrence and planned corrective action
g. describe any partial corrective action taken
h. provide an explanation when the corrective action taken is significantly different from the corrective action previously reported

Entities may report requirements f, g, and h in this schedule, or in the corrective action plan (CAP) with a reference to the CAP from this schedule.

Note: It is best practice to present the schedule on entity letterhead. Different schedule formats may be used but all elements above must be included. (See ***Appendix A*** for an Example Schedule)

VI. Corrective Action Plan Requirements for Local Governments and Nonprofits

A. Corrective Action Plan Requirements for Local Governments

Tennessee Code Annotated, Title 9, Chapter 3, Part 4 requires each local government, regardless of a single audit requirement, with one or more audit findings in its annual audit to submit a corrective action plan to the comptroller's office. Requirements for the plan are listed below. The corrective action plan is required to be included in the annual audit report with the exception of entities subject to a single audit. Entities subject to a single audit, are

encouraged to include the corrective action plan in the audit report but may follow the options set forth in Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). If the corrective action plan is submitted separately to the Federal Audit Clearinghouse as part of the Reporting Package and not included in the annual audit report, it must also be submitted to our office.

The plan must:

- be included in a separate section of the audit report;
- be on the entity's letterhead;
- be labeled "management's corrective action plan";
- include the reference number of each audit finding;
- provide the corrective action taken or planned;
- include the anticipated completion date(s) for correction;
- provide the name(s) of the contact person(s) responsible for the corrective action;
- be signed by the client and include all departments (no separate plans for each division or department);
- include comments related to material discrete component units that have findings significant to the audit; and
- contain an explanation and specific reasons in circumstances when the entity disagrees with an audit finding(s), or believes corrective action is not required.

B. Corrective Action Plan Requirements for Nonprofits

Any nonprofit organization subject to a single audit, with one or more audit findings, is required to submit a corrective action plan to the comptroller's office. Nonprofits are encouraged to include their corrective action plan in the annual audit report but may follow the options set forth in Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). If the corrective action plan is submitted separately to the Federal Audit Clearinghouse as part of the Reporting Package, it must also be submitted to our office. The contents of the plan should be in accordance with Uniform Guidance requirements.

<u>Special Reporting Considerations</u>

- Financial Reports Covering More Than One Fiscal Year

Financial reports covering more than one fiscal year would generally include the following information. However, the Comptroller's office should be contacted any time an audit covers more than one fiscal year to determine what type of reporting is acceptable under the circumstances.

  - A Statement of Financial Position for the end of the period being audited;
  - Operating Statements for each fiscal year being audited;

- Cash Flow Statements for each fiscal year being audited.

- Regulatory Reporting to Local Government Audit

  - Regulatory reporting for entities subject to audit is covered in Sections B through H and Appendix D
  - Regulatory reporting for entities not currently being audited or not subject to audit is covered in ***Section K***

Current Developments Affecting Reporting and Other Matters

See ***Appendix B*** for current developments affecting reporting and other matters that are relevant to audits conducted on behalf of the Comptroller's Office.

SECTION B

REPORTING AND AUDITING REQUIREMENTS TENNESSEE COUNTIES
(INCLUDING RELATED COMPONENT UNITS)

Background

County government in Tennessee may be structured in several ways. The *Constitution of the State of Tennessee* states that the General Assembly may provide alternate forms of county government, including the right to charter. The *Constitution* also allows a county to organize under a consolidated form of government.

Numerous state statutes and private acts, as well as rules and regulations, govern a county's financial operations ***Appendix D***. Additionally, the county legislative body may enact resolutions establishing policy or procedure, authorize various activities, and transact other business such as adopting budgets, filling vacancies, creating boards or authorities, making appointments to boards or authorities, and authorizing the issuance of bonds and notes.

In each county, there are a minimum of 11 county offices:

1. County Trustee
2. County Mayor
3. Department of Education
4. Department of Highways
5. County Clerk
6. Circuit Court Clerk
7. General Sessions Court Clerk
8. Chancery Court Clerk and Master
9. Register
10. Sheriff
11. Assessor of Property

The county mayor serves as the chief fiscal officer of a county, although the mayor has little control over the assessment of property, the collection of property tax, the salaries and disbursements of other elected county officials, and some county-owned institutions. In most counties, the county mayor is responsible for administering general county operations. The education and highway departments make up the other primary areas of a county government's fiscal operations. These three offices or departments are known as a county's "program agencies." The county trustee, as the treasurer for the county, collects taxes and other revenues and maintains the fund account balances from which disbursements of the county's offices or departments are paid.

Accounting, Books and Records

The Government Finance Officers Association's 2024 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, is to be used as guidance for accounting and reporting where it does not conflict with:

(1) guidance in Manuals issued by the comptroller's office;
(2) recently issued GASB standards or any requirements of other standards setting bodies that have not been incorporated into the Blue Book

The Tennessee Board of Utility Regulation has adopted guidelines for evaluating the useful lives of assets of water and wastewater systems. These guidelines are available in Appendix C of the Utility Manual located on the Division of Local Government Finance's website.

Financial Reporting

General:

Financial statements should be prepared in conformity with accounting principles generally accepted in the United States of America. The basic financial statements should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards.* Under current GASB standards, the board of education is a component unit of the county and should be reported discretely in the county's annual comprehensive financial report (ACFR). Also, all counties, except Davidson, Hamilton, Knox, and Shelby, must adopt the "County Uniform Chart of Accounts," (County Chart of Accounts).

The financial transactions of county constitutional offices, such as trustees, county clerks, clerks of courts, registers, clerk and masters, and sheriffs, should be consolidated with the financial statements of the county in the annual financial report or ACFR in order to conform with accounting principles generally accepted in the United States of America. There is no requirement for financial statements of the constitutional offices to be issued separately from the county's report. A county may present separate financial reports on the constitutional offices, if so desired.

Additional Requirements of the Comptroller's Office:

County officials are encouraged to issue a financial report that conforms to the requirements of the Governmental Accounting Standards Board related to an ACFR. However, audit reports for counties shall, at a minimum, conform to the general report outline in ***Section A*** of this manual and include the following supplementary information.

An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is required for the combining, individual funds, and budgetary schedules as well as the Schedule of Expenditures of Federal Awards and State Financial Assistance.

Individual fund revenues should be classified by individual source (property tax, TVA-in lieu of tax, beer tax, etc.), and expenditures should be classified by function, organizational unit, and object. At a minimum, budgetary schedules should present details consistent with the entity's legally adopted budget.

Primary governments should present in the Notes to the Financial Statements, all related debt disclosures for discretely presented component units that do not submit a separate audited financial report to our office. Additionally, if a discretely presented component unit does not issue a separately audited financial report, a Schedule of Changes in Long-Term Debt by Individual Issue should be presented in the primary government's financial report as described in d. 2. a. below as supplemental information. However, if a discretely presented component unit (e.g., hospital) submits a separate audited financial report to our office, the Schedule of Changes in Long-Term Debt by Individual Issue may be excluded from the primary government report.

1. Supplementary Information and Other Information:

   a. Combining statements:
      i. for nonmajor governmental and enterprise funds.
      ii. internal service funds
      iii. fiduciary funds
      iv. nonmajor component units

   b. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not reported as required supplemental information. The schedules should include four (4) columns: original budgetary amounts, final budgetary amounts, actual expenditures, and variances.

   c. Fund information for discretely presented component units that do not issue a separate audit report.

   d. Schedules.

      (1) A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in ***Appendix A***. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

      (2) The following schedules are required, if applicable, whether the county issues an ACFR or not. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments and is required to be presented in supplementary information and not the notes. The following are required schedules:

(a) Schedule of Changes in Long-Term Debt by Individual Issue (See example in ***Appendix A***).

(b) Schedule of Changes in Lease Obligations (See example in ***Appendix A***).

(c) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements by Individual Issue and Fiscal Year–All Funds (e.g., bonds, notes, and other long-term debt). Schedules should also be included for all long-term internal receivables and payables issued pursuant to Section 9-21-408, TCA.

(d) Schedule of Transfers (i.e., transfer amounts and purposes by individual fund for each major and each nonmajor fund). The supplemental schedule may be omitted if the notes to the financial statements provide the required detail. (See example in ***Appendix A***).

(e) Schedule of Salaries and Official Bonds of Principal Officials.

(f) Schedule of Utility Rate Structure, Number of Customers. (excluded are solid waste services)

County Schools–Centralized Cafeteria Funds

Centralized food service funds of a special school district or county school system must be reported in one of the special school district's funds or board of education's funds in the county's report respectively.

Office of Assessor of Property

The Division of Property Assessments monitors assessors of property to determine compliance with certain state statutes and regulations. The objective of the monitoring is to determine if the procedures, used by assessors for performing local assessment functions, are in compliance with laws and regulations.

The monitoring of the office of assessor of property is not a financial audit. However, depending on the importance of the noncompliance noted, financial auditors may report the results of the monitoring of the office of assessor of property in the internal control and compliance section of the county's audit report or in a separate findings and recommendations section of the county's audit report. Any questions regarding the monitoring of the office of assessor of property should be directed to the Division of Property Assessments.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 1, is included to assist counties in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."
- The Appendix is not exhaustive and should not be relied on to identify all Tennessee Code Annotated compliance requirements.
- Counties that have formed joint venture entities with one or more governments should also refer to ***Section D, Reporting and Auditing Requirements - Special Purpose Governments***, for applicable regulatory reporting requirements for joint venture entities.

SECTION C

REPORTING AND AUDITING REQUIREMENTS TENNESSEE MUNICIPALITIES
(INCLUDING RELATED COMPONENT UNITS)

Background

Municipalities in Tennessee may be chartered under the Private Acts of the State of Tennessee or under one of the uniform charters set forth in Tennessee Code Annotated. The three basic forms of municipal government found in Tennessee are mayor and board of aldermen, city manager and board of commissioners, and modified city manager and council. See ***Appendix D***.

All municipalities must employ a chief financial officer that is in compliance with the Municipal Finance Officer Certification and Education Act of 2007 (Section 6-56-400, TCA et seq) (the Act). Penalties for noncompliance with the Act may be material to the financial statements of the municipality. Additional information regarding the requirements of the Act can be located at the Certified Municipal Finance Officer Act System.

Section 9-2-102, Tennessee Code Annotated, requires the comptroller of the treasury to prescribe a uniform accounting system for use by all municipal officials. The statute states, "It is the duty of all officials to adopt and use the system and the character of books, reports, and records designated; provided, that the comptroller of the treasury may approve any existing system." An accounting system has been defined as "the methods and records established to identify, assemble, analyze, classify, record and report a government's transactions and to maintain accountability for the related assets and liabilities."

Effective July 1, 2022, the comptroller's office started maintaining the municipal uniform chart of accounts that had been maintained by MTAS for many years.

It is not mandatory for municipalities to use the municipal uniform chart of accounts maintained by the comptroller's office. Beginning with the audit year ending June 30, 2023, incorporated municipalities are required to convert their audited accounting information into a standard format using a Microsoft Excel tool developed by our office (i.e., Municipal Chart of Accounts Crosswalk). This information is required to be submitted annually to the comptroller's office by each municipality's audit firm. The municipal uniform chart of accounts and resources for the crosswalk tool are available at Local Government Audit's Municipal Chart of Accounts Page.

The comptroller's office has developed an internal control manual that applies to all local governments and quasi-governmental organizations, the *Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee*.

Accounting, Books and Records

The Government Finance Officers Association's 2024 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, is to be used as guidance for accounting and reporting where it does not conflict with:

(1) guidance in Manuals issued by the comptroller's office;
(2) recently issued GASB standards or any requirements of other standards setting bodies that have not been incorporated into the Blue Book

Municipal officials should ensure that:

1. a complete, self-balancing group of accounts is established and maintained for each fund. For adequate accounting, municipalities must maintain a general ledger, cash receipts journal, and cash disbursements journal for each fund, as well as subsidiary account records necessary to comply with legal provisions and generally accepted accounting principles and to present the financial position and changes in financial position.

2. accounting records maintained by the municipality should be consistent with the financial reporting of the municipality. That is, if the municipality reports a fund, the accounting records must include a separate fund in which activity is posted throughout the year. Likewise, if the accounting records include a fund in which activity is posted throughout the year, the financial report should reflect that fund.

3. subsidiary ledgers, such as the tax roll and the utility accounts receivable listings, are used to maintain individual account transaction details to support the total in the general ledger control (summary) account.

4. adequate supporting documentation, such as prenumbered receipts, billing stubs, invoices, etc., is required to document all transactions. Payroll records should contain sufficient documentation to substantiate census information used by actuaries to determine pension contributions, liabilities, etc.

5. complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible. The minutes should include the following:

    a. copies of all ordinances and resolutions adopted (including utility rates and cut-off policy, tax rates, permit fees, etc.)

    b. copies of the budget and any supplemental appropriations

    c. schedules of personnel appointments and salary rates and changes (In larger municipalities where the manager or another individual is authorized to set wages

for certain employees, the minutes should include documentation of: (1) all appointments and wage rates that must be set by the board; (2) across the board wage increases; and, (3) the amount of funds allocated to departments to be allocated to employees by the department heads or other designated individual(s). Adequate policies governing authorization of pay increases should be developed and maintained by the municipality. Wage and salary rates increases delegated by the board should be adequately documented in the personnel records.)

d. copies of bond and revenue anticipation resolutions

e. authorizations of loans and transfers between funds

f. notices of public hearings and resulting decisions

g. copies of federal and state grant applications (whether a final award was received or not)

h. summaries of action taken on competitive bids

i. copies of contracts entered into by officials. Municipal officials should, in most circumstances, obtain a written contract for agreements with other entities or individuals for services received or provided, regardless of whether payment is involved, including the following:

   (1) contract labor and consultant agreements, day labor, and similar work

   (2) leases

   (3) rentals

   (4) management agreements

   (5) mutual aid agreements

   (6) cable or other franchise agreements

j. purchasing policy

k. expense reimbursement policy

l. other records necessary to support revenues, cash receipts, expenditures, expenses, cash disbursements, billings, water usage, etc.

6. Telecommunications activities are accounted for properly, including:

   - The telecommunications division must maintain its own accounting and record-keeping system

- Any loans from the municipal electric system must be made at not less than the highest interest rate then earned by the municipal electric system on invested electric plant funds, to acquire, construct, and provide working capital for the system, plant, and equipment;

- The municipal electric system shall fully allocate any costs associated with telecommunication services;

- The municipal electric system shall charge the same fees as it charges any other franchise holder providing the same service;

- The telecommunications division must present information that discloses the amount of any in-lieu of tax payments;

- The telecommunications division must present sufficient detail of all financial activity in supplemental schedules or in the notes to the financial statements to demonstrate compliance with Section 7-52-401, Tennessee Code Annotated et seq;

7. Cable Television, Internet and Related Services (Cable) are accounted for properly, including:

   - The cable division must maintain its own accounting and record-keeping system;

   - Any loans from the municipal electric system must be made at not less than the highest interest rate then earned by the municipal electric system on invested electric plant funds, to acquire, construct, and provide working capital for the system, plant, and equipment;

   - The municipal electric system shall fully allocate any costs associated with cable services;

   - The municipal electric system shall charge the same fees as it charges any other franchise holder providing the same service;

   - The cable division must present information that discloses the amount of any in-lieu of tax payments.

   - The cable division must present sufficient detail of all financial activity in supplemental schedules or in the notes to the financial statements to demonstrate compliance with Section 7-52-601, TCA et seq.

8. A municipality's activities related to solid waste may be recorded in the following funds and related accounts. For activities not meeting the requirements to be accounted for in an enterprise or special revenue fund, detailed expenditures should be recorded in the general fund.

Fund Type	Fund Account Number	Account Name
Enterprise	421	Solid Waste Management
Enterprise	422	Solid Waste Collection
Special Revenue	131	Solid Waste Management

As a result of legislation passed in 1991, any local government that operates a solid waste disposal site is required to record the operations in an enterprise fund. Fund account no. 421 is recommended for these activities. For those municipalities that provide collection services as well as a solid waste disposal site, this legislation provides the option of using an enterprise fund (account no. 422) or a special revenue fund (account no. 131) to account for the collection service. However, the operation of a solid waste disposal site must be accounted for in an enterprise fund (account no. 421). Municipalities that provide only collection service to their residents are required to account for this service in a separate fund. In many instances these activities will be accounted for in a special revenue fund (account no. 131). The fund account numbers were developed by the Municipal Technical Advisory Service in conjunction with the comptroller of the treasury. They have been designed to be incorporated into the accounting system developed and used by the Local Government Data Processing Corporation. Municipalities that do not use the accounting system developed by the Local Government Data Processing Corporation should endeavor to maintain reasonably comparable account names.

Object expenditure codes to be used in solid waste disposal site accounting include the following:

295	Landfill Services
480	Landfill Materials
481	Daily Cover Material
482	Drainage Materials
483	Geotextile Materials
484	Synthetic Membrane
485	Liner Material
486	Wire or Fencing
487	Testing Supplies
488	Natural Materials
489	Other Landfill Material
560	State Fees and Charges
561	Application Fee
562	Tipping Fee (Surcharge)
563	Other Landfill Fees
564	Annual Maintenance Fee
565	Permit Fee
566	Sanitary Survey Fee
567	Plans Review Fee

568	Annual Emission Fee
569	Other State Fees and Charges
911	Site Acquisition
912	Site Development

9. Section 10-7-702, Tennessee Code Annotated, provides that the Municipal Technical Advisory Service (MTAS), "…is authorized to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by municipal officials in establishing retention schedules for all records created by municipal governments in the state." Detailed provisions are addressed in the MTAS guide, *Records Management for Municipal Governments.* Information, including the above publication, regarding records retention (publications 458, 686, and 1429) can be accessed at:
    - Records Management for Municipal Governments
    - Finance Records
    - Amendments to the Federal Rules of Civil Procedure

10. The Tennessee Board of Utility Regulation has adopted guidelines for evaluating the useful lives of assets of water and wastewater systems. These guidelines are available in Appendix C of the Utility Manual located on the Division of Local Government Finance's website.

Financial Reporting

General:

The basic financial statements of all municipalities should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

If a separate financial report is issued for a fund of the municipality, all requirements of this section applicable to that fund financial report should be included.

Municipal Schools–Centralized Cafeteria Funds

A municipal school system's centralized cafeteria funds are reported in one of the board of education's funds in the municipality's annual financial report.

Municipal Schools – Board of Education

Financial reports issued for a municipal board of education must include all activities, funds, debt, and capital assets that are used in operating the board of education. Municipalities with local school systems will need to consider accounting practices that might not be conducive to the separate reporting for the board of education. Capital projects for schools will need to be accounted for in a separate fund from other municipal capital projects. Debt issued for multiple purposes which include the board of education will present unique accounting requirements.

A separate financial report for a municipal board of education must comply with the basic reporting requirements for a municipality as well as the additional requirements of the comptroller that are applicable to a municipality.

If the board of education is a component unit, the board's financial statements would be substantially the same format as the municipality's financial statements. The auditing and reporting requirements for component units should be followed.

If the board of education is a department of the municipality, department-wide financial statements would be prepared for the board of education, as described in the AICPA Audit and Accounting Guide: *State and Local Governments*, March 1, 2025, Section 17.100.

Additional Requirements of the Comptroller's Office:

Municipal officials are encouraged to issue a financial report that conforms to the requirements of the Governmental Accounting Standards Board (GASB) related to an annual comprehensive financial report (ACFR). However, audit reports for municipalities shall, at a minimum, conform to the general report outline in ***Section A*** of this manual and include the following supplemental information. The schedules required are significantly less than what would be required in an ACFR. Additional requirements and/or clarifications regarding the financial statements and required schedules are identified below.

All supplemental information included in separately issued fund financial statements should be included in the financial report for the municipality as a whole. For component units that issue separate financial statements, the supplemental information from the separate report is generally not required to be included in the municipality's financial report, although it is permissible. If a separate single audit is not conducted for a component unit, then the information in the Schedule of Expenditures of Federal Awards and State Financial Assistance for that separate audit should be included in the municipality's schedule. A note should be added to the schedule of the component unit to indicate that the single audit was conducted for the reporting entity, not for the separate component unit.

1. Additionally, an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is required for the combining, individual fund, and budgetary schedules as well as the utility detail required by items 5.d.(3), (4) and (5) below and the Schedule of Expenditures of Federal Awards and State Financial Assistance.

2. Primary governments should present in the Notes to the Financial Statements, all related debt disclosures for discretely presented component units that do not submit a separate audited financial report to our office. Additionally, if a discretely presented component unit does not issue a separately audited financial report, a Schedule of Changes in Long-Term Debt by Individual Issue should also be presented in the primary government's financial report as described below as supplemental information. However, if a discretely presented component unit (e.g.,

hospital) submits a separate audited financial report to our office, the Schedule of Changes in Long-Term Debt by Individual Issue may be excluded from the primary government report.

3. Additional Detail Required for Revenues and Expenditures:
   In addition to revenues being presented by source (e.g., taxes, intergovernmental revenues, licenses and permits, and fines, etc.) as required by generally accepted accounting principles, taxes and intergovernmental revenues should be further detailed by specific source (e.g., property tax, TVA-in lieu of tax, beer tax, gasoline and motor fuel tax, etc.).
   In addition to being classified by function (or program) and character (e.g., current, capital outlay, debt service and intergovernmental expenditures) as required by generally accepted accounting principles, expenditures should be further detailed by object classes.
   The additional detail of revenues by specific source and expenditures by object classes should be either in the financial and/or budgetary statements or schedules of the major and nonmajor funds or, in additional supplemental schedules. Excessively detailed object classifications for expenditures should be avoided.

4. Supplemental Information and Other Information:
   (Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2200.210 - 211, for additional details on all combining statements.)

   a. Combining statements:
      i. nonmajor governmental and enterprise funds.
      ii. internal service funds
      iii. fiduciary funds
      iv. nonmajor component units

   b. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not reported as required supplemental information. The schedules should include four (4) columns: original budgetary amounts, final budgetary amounts, actual expenditures, and variance.

   c. Fund information for discretely presented component units that do not issue a separate audit report.

d. Schedules:

(1) A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in ***Appendix A***. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

(2) The following schedules are required, if applicable, whether the municipality issues an ACFR or not (except as otherwise noted). Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments. Note that certain schedules below are used by other state departments and are required to be presented in supplemental information and should not be in the notes.

(a) Schedule of Transfers (i.e., transfer amounts and purposes by individual fund for each major and each nonmajor fund). The supplemental schedule may be omitted if the notes to the financial statements provide the required detail. (See example in ***Appendix A***).

(b) Schedule of Internal Receivables and Payables. Amounts should be reported by each major fund, each nonmajor fund, and interdivisional balances (as applicable). If the netting option permitted by the AICPA Audit and Accounting Guide: *State and Local Governments*, Paragraph 9.12, March 15, 2023 Edition was utilized for reporting, gross amounts should be reported in this schedule. The supplemental schedule may be omitted if the notes to the financial statements provide the required detail. (See example in ***Appendix A***).

(c) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements by Individual Issue and Fiscal Year–All Funds (e.g., bonds, notes, and other long-term debt). Schedules should also be included for all long-term internal receivables and payables issued pursuant to Section 9-21-408, TCA.

(d) Schedule of Changes in Long-Term Debt by Individual Issue. (See example in ***Appendix A***).

(e) Schedule of Changes in Lease Obligations (See example in ***Appendix A***).

(f) Uncollected Delinquent Taxes Filed in accordance with applicable laws.

(g) Utility Rate Structure and Number of Customers – all funds and divisions. (excluded are solid waste services).

(h) Schedule of Changes in Property Taxes Receivable – By Levy Year (which should tie to the financial statements and may be omitted if an ACFR is issued) (See example in ***Appendix A***).

(i) Property Tax Rates and Assessments – Last 10 Years.

(j) Additional schedule(s), if necessary, of taxes and intergovernmental revenue by specific source and expenditures by object.

(k) Additional schedule(s), if necessary, of expenditures by object class. Schedules are required to demonstrate compliance if sufficient detail is not included in the basic financial statements or fund financial statements/schedules.

(3) If the municipality provides several utility services (e.g. gas, electric, water, sewer or a combined water and sewer operation, depending on the policies of the municipality, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net position; revenues, expenses, and changes in net position; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

(4) If a municipality is providing cable, internet, and/or related services, additional schedules must be included that provide sufficient detail to demonstrate compliance with Section 7-52-601, Tennessee Code Annotated (TCA) et seq. unless sufficient detail is presented in the basic financial statements. [e.g., detailed revenues/expenses including allocated expenses (Section 7-52-603, TCA); details of all loans and loan terms (Section 7-52-607, TCA); tax equivalent payments (Section 7-52-606, TCA)]

(5) If a municipality is providing telecommunication services, additional schedules must be included that provide sufficient detail to demonstrate compliance with Section 7-52-401, Tennessee Code Annotated et seq. unless sufficient detail is presented in the basic financial statements. [e.g., detailed revenues/expenses including allocated expenses (Section 7-52-402(1), TCA); details of internal loans and loan terms (Section 7-52-402(2), TCA); tax equivalent payments (Section 7-52-404, TCA)]

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 4 (plus Sections 3, 3a, and 5), is included to assist municipalities in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements related to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all Tennessee Code Annotated compliance requirements.

- Municipalities that have formed joint venture entities with one or more governments should also refer to ***Section D, Reporting and Auditing Requirements - Special Purpose Governments***, for applicable regulatory reporting requirements for joint venture entities.

SECTION D

REPORTING AND AUDITING REQUIREMENTS SPECIAL PURPOSE GOVERNMENTS (INCLUDING RELATED COMPONENT UNITS)

Emergency Communications Districts

Background

Emergency communications districts (ECDs) are created under the authority of Title 7, Chapter 86, Tennessee Code Annotated (TCA). The purpose of an ECD is to provide an emergency communications service whereby a public safety answering point may receive telephone calls dialed to the 911 telephone number. A voter referendum is required for the creation of an ECD. Section 7-86-106, TCA, provides that ECDs are municipalities or public corporations. The powers are vested in a board of directors. Funds to operate ECDs are largely generated from a monthly telephone charge levied on all telephone customers in a district.

Financial Reporting

General

Emergency communications districts should be accounted for as enterprise funds on the accrual basis of accounting. Accounting and financial reporting requirements for emergency communications districts are included in the ***Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts,*** published by the Comptroller of the Treasury. This manual includes links to websites which provide additional compliance, example financial statements, and other reporting requirements.

Typically, emergency communications districts are component units of county governments. There are a few that are component units of municipal governments or are joint ventures.

Additional Requirements of the Comptroller's Office:

An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist emergency communications districts in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all Tennessee Code Annotated compliance requirements.

Housing Authorities

Background

Housing authorities in Tennessee are authorized to be created under Title 13, Section 20, Tennessee Code Annotated, and are bodies corporate and politic. Housing authorities are created to provide shelter to lower income citizens and frequently receive substantial funding from capital and operating programs through the U.S. Department of Housing and Urban Development (HUD).

Financial Reporting

General

Housing authorities are required to maintain accounts and present financial statements which comply with the reporting requirements established by the Governmental Accounting Standards Board (GASB). The basic financial statements of all housing authorities should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the combining statements, as well as the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in ***Appendix A***. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

3. Supplemental information must include fund information for discretely presented component units that do not issue a separate audit report.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist housing authorities in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements related to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all Tennessee Code Annotated compliance requirements.

- Housing authorities that have formed joint venture entities with one or more governments should also refer to ***Section D, Reporting and Auditing Requirements - Special Purpose Governments***, for applicable regulatory reporting requirements for joint venture entities.

Municipal Energy Authorities

Background

Municipal energy authorities in Tennessee are authorized to be created under Title 7, Chapter 36, Tennessee Code Annotated. The municipal energy authorities are created for the purpose of planning, acquiring, constructing, improving, furnishing, equipping, financing, owning, operating, and maintaining electric, water, and wastewater systems, and telecommunications systems as are specified in their certificates of incorporation. The authority may provide such services within or outside the corporate limits of the associated municipality and within or outside this state.

Financial Reporting

General

Municipal energy authorities are required to maintain accounts and present financial statements which comply with the reporting requirements established by the Governmental Accounting Standards Board (GASB) as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

If a municipal energy authority providing telecommunications service (i.e., telephone, cable television, voice, data, or video transmissions, video programming, internet access and related services) is formed under Section 7-36-101, Tennessee Code Annotated (TCA) et seq., or subject to the statutory provisions contained therein, additional schedules must be included in the authority's financial report that provide sufficient detail to demonstrate compliance with Section 7-36-107(a)(6)(B), TCA.

Section 7-36-107(a)(6)(B), TCA gives the municipal energy authority all the powers and authority conferred upon municipalities by Sections 7-52-401, 7-52-402, 7-52-403, 7-52-405; 7-52-406; 7-52-601 through 7-52-605, but excluding any requirement under Section 7-52-603(a)(1)(A) to create multiple divisions for telecommunications services, and Sections 7-52-609 through 7-52-611. **In the exercise of such powers, the authority shall be subject to all the obligations, restrictions, and limitations imposed upon municipalities by those sections and imposed upon providers of the services described in those sections by federal law.**

Additional Requirements of the Comptroller's Office

An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum, any combining and individual financial statements, detail schedules required in items 3 and 4 below, and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

Municipal energy authorities should present in the Notes to the Financial Statements and Supplemental Information, all related debt disclosures for discretely presented component units that do not submit a separate audited financial report to our office.

Supplemental Information and Other Information:

1. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in Appendix A. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

2. The following schedules are required, if applicable. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments and is required to be presented in supplementary information and not the notes. The following are required schedules:

    a. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year.

    b. Schedule of Changes in Long-Term Debt by Individual Issue. (See example schedule in ***Appendix A***)

    c. Schedule of Changes in Lease Obligations (See example in ***Appendix A***)

3. If the authority provides several utility services (e.g. gas, water, sewer or a combined water and sewer operation, depending on the policies of the authority, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net position; revenues, expenses, and changes in net position; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

4. Municipal energy authorities must present sufficient detail of all financial activity of its telecommunication services, as defined above, in supplemental schedules or in the notes to the financial statements to demonstrate compliance with state law.[e.g., detailed revenues/expenses including allocated expenses (Sections 7-52-402(1) and 7-52-603, TCA); details of all loans and loan terms (Sections 7-52-402(2) and 7-52-607, TCA); tax equivalent payments (Section 7-52-606, TCA)]

5. Utility Rate Structure and Number of Customers

Public Utility Districts

Background

Public utility districts in Tennessee are created under the authority of Title 7, Chapter 82, Tennessee Code Annotated, the Utility District Law of 1937. Utility districts created under this chapter are empowered to operate and maintain a system for furnishing any of the following: water, sewer, sewage disposal, natural gas, police, fire protection, garbage collection and garbage disposal, street lighting, parks and recreational facilities, transit facilities, community antenna television service, and transmission of industrial chemicals by pipeline to or from industries or plants within the boundary of the district. See ***Appendix D***.

Although this law empowers a public utility district to furnish any of the above, most districts confine their services to furnishing water and/or sewer, or natural gas.

The comptroller's office has developed an internal control manual that applies to all local governments and quasi-governmental organizations. That manual, which can be accessed at Local Government Audit's Manuals Page.

Accounting, Books and Records

The Government Finance Officers Association's 2024 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, as well as the updates, is to be used as guidance for accounting and reporting where it does not conflict with:

(1) guidance in Manuals issued by the Comptroller's Office;
(2) recently issued GASB standards or any requirements of other standards setting bodies that have not been incorporated into the Blue Book

The board should ensure that:

1. a complete, self-balancing group of accounts is established and maintained. For districts that provide non-homogenous services, such as gas and water, separate funds must be maintained for each service. Water and sewer services may be presented in a single fund, although a separate accounting for each activity is preferred. For adequate accounting, utility districts must maintain a general ledger, cash receipts journal, and cash disbursements journal for each fund, as well as subsidiary account records necessary to comply with legal provisions. Accounting records should be maintained on the accrual basis in accordance with generally accepted accounting principles.

2. subsidiary ledgers, such as the utility accounts receivable listings, are used to maintain individual account transaction details to support the total in the general ledger control (summary) account.

3. adequate supporting documentation, such as prenumbered receipts, billing stubs, invoices, etc., is required to document all transactions.

4. complete minutes of actions taken by the board are maintained at the utility district's office. The official minutes should be signed as approved by the secretary of the board (or other authorized individual) and kept together in date order and be easily accessible. The minutes should include the following:

    a. copies of all resolutions adopted (including utility rates, cut-off policy, tap fees, etc.)

    b. schedules of personnel appointments and salary rates and changes (In larger districts where the manager or another individual is authorized to set wages for certain employees, the minutes should include documentation of: (1) all appointments and wage rates that must be set by the board; and (2) across the board wage increases. Adequate policies governing authorization of pay increases should be developed and maintained by the district. Wage and salary rates increases delegated by the board should be adequately documented in the personnel records.)

    c. copies of bond and revenue anticipation resolutions

    d. notices of public hearings and resulting decisions

    e. copies of federal and state grant applications (whether a final award was received or not)

    f. summaries of action taken on competitive bids

    g. copies of contracts entered into by the board. The board should, in most circumstances, obtain a written contract for all agreements with other entities or individuals for services received or provided, regardless of whether payment is involved, including the following:

        (1) contract labor and consultant agreements, day labor, and similar work

        (2) leases

        (3) rentals

        (4) management agreements

    h. purchasing policy

    i. expense reimbursement policy

    j. other policies as adopted by the board

5. The Tennessee Board of Utility Regulation has adopted guidelines for evaluating the useful lives of assets of water and wastewater systems. These guidelines are available in Appendix C of the Utility Manual located on the Division of Local Government Finance's website.

Financial Reporting

General

Public utility districts maintain their accounting systems on the accrual basis, with the exception that revenue from utility sales may be recognized when billed. This method is widely accepted because of the difficulty in measuring utility services sold before the audit cutoff date. The amount of revenue earned and not recognized at year-end will be offset by the amount carried forward from the preceding year, and any net difference is generally minor. The basic financial statements of all utility districts should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*. Additional guidelines can be found in the Government Finance Officers Association's 2024 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, including related updates.

Additional Requirements of the Comptroller's Office

An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum any combining and individual financial statements, the utility detail schedules required below in item 3, and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

Supplemental Information and Other Information:

1. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in Appendix A. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

2. The following schedules are required, if applicable. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments and is required to be presented in supplementary information and not the notes. The following are required schedules:

    a. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year.

b. Schedule of Changes in Long-Term Debt by Individual Issue. (See example schedule in ***Appendix A***)

c. Schedule of Changes in Lease Obligations (See example in ***Appendix A***)

3. If the district provides several utility services (e.g. gas, water, sewer or a combined water and sewer operation, depending on the policies of the district, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net position; revenues, expenses, and changes in net position; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

4. Utility Rate Structure and Number of Customers (e.g. gas, water, and sewer). Solid waste services will not be required.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist utility districts in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all Tennessee Code Annotated compliance requirements.

- Utility districts that have formed joint venture entities with one or more governments should also refer to ***Section D, Reporting and Auditing Requirements - Special Purpose Governments***, for applicable regulatory reporting requirements for joint venture entities.

Public Charter Schools

Background

Public charter schools are authorized to be created by Section 49-13-101, TCA. They can be created for several reasons, as spelled out in Section 49-13-106, TCA. All public charter school systems have a fiscal year end of June 30 and must be audited annually.

The Board of Education of public charter schools is required to maintain their accounts and records in accordance with generally accepted accounting principles and in conformance with the uniform chart of accounts and accounting requirements prescribed by the Comptroller of the Treasury. The internal school funds (activity, centralized or noncentralized cafeteria funds, and other internal school funds) of public charter schools should be accounted for and reported on in the same manner as the internal school funds of municipal school systems, as provided for in ***Section G*** of this manual.

NOTE: Please check the Division of Local Government Audit's website for updates on Charter School reporting under the General Guidance Tab.

In addition, review the information in ***Section K*** of this manual for information regarding requirements related to charter management organizations (CMOs).

Financial Reporting

General

The basic financial statements of all public charter schools should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

When contracting for a combined annual audit for all schools operated by the CMO, the audit contract should be executed in the name of the CMO. Although the audit contract is executed in the name of the CMO, the audit should include financial information required by Section 49-13-127, TCA, for each school. It is permissible to include a CMO column as long as each charter school's transactions are properly classified and reported as assets, liabilities, revenues and expenditures of the respective school.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the following schedules must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient

funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in Appendix A. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

3. The combining schedules of charter schools presented in supplemental information.

Other Special Purpose Governments

Background

Many of the organizations in this category have in the past been referred to as quasi-governmental organizations. Generally, quasi-governmental agencies included development districts, human resource agencies, educational co-ops, and other organizations [except for municipalities, counties (and their political subdivisions), and state colleges and universities] whose charters are included in Tennessee Code Annotated. However, the other special purpose governments category is broader and encompasses those agencies previously considered to be quasi-governmental, as well as other entities which meet the definition of a government, such as:

- joint ventures established by 2 or more counties and or municipalities under the provisions of various state statutes including, but not limited to Sections 5-1-113, 5-1-114, 6-33-107, 7-56-105, and 12-9-104, TCA;

- joint economic and community development boards, as provided for in Section 6-54-118, TCA

- public building authorities, as provided for in Section 12-10-101 et al; TCA and

- industrial development boards, as provided for in Section 12-9-104, TCA.

Such organizations should follow the accounting and reporting guidance established by the Governmental Accounting Standards Board related to an annual comprehensive financial report (ACFR), as applicable.

Program Specific Audits - See ***Section I***.

Financial Reporting

General

The basic financial statements of all special purpose governments should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Additional Requirements of the Comptroller's Office

An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum any combining and individual financial statements, the utility detail schedules required by item c.ii. below, and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

Special purpose governments should present in the Notes to the Financial Statements, all related debt disclosures for discretely presented component units that do not submit a separate audited financial report to our office.

Supplemental Information and Other Information:

a. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in Appendix A. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

b. The following schedules are required, if applicable. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments and is required to be presented in supplementary information and not the notes. The following are required schedules:

    i. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year – All Funds.

    ii. Schedule of Changes in Long-Term Debt by Individual Issue. (See example schedule in ***Appendix A***)

    iii. Schedule of Changes in Lease Obligations (See example in ***Appendix A***)

c. If the special purpose government provides utilities to other governments and/or to private citizens, the financial report must include the following schedules, as applicable:

    i. Utility Rate Structure and Number of Customers (excluded are solid waste services)

    ii. If the special purpose government provides several utility services (e.g. gas, electric, telecommunications, water, sewer or a combined water and sewer operation, depending on the policies of the special purpose government, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net position; revenues, expenses, and changes in net position; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

Note: Limited distribution utilities, i.e., utility systems that provide service only to other governments and not to private citizens, are **excluded** from being filed with the Tennessee Board of Utility Regulation (Section 7-82-401(f)(2) and (f)(3)), for negative changes in net position. However, they are subject to the oversight of the board if they have a deficit in total net position, a deficit unrestricted net position or are in default on debt.

Compliance and Other Regulatory Reporting Requirements (interlocal agreements)

Other special purpose governments created by two or more local government entities under Sections 12-9-101 – 112, TCA (local government joint ventures) are required to report certain information to Local Government Audit. Local government joint venture entity means any entity created pursuant to this chapter, including, but not limited to, a self-insurance pool, trust, joint venture, nonprofit organization, or any other type of organization that is sponsored, owned, operated, or governed by two (2) or more local government entities as a separate and specific activity.

The information must be filed with Local Government Audit within ninety (90) days of execution of the agreement. If the participants or structure of the local agreement joint venture changes, please file an updated agreement with Local Government Audit.

The filing of the regulatory report is the responsibility of the local government joint venture entity. Each participating local government does not have to file individually. A copy of the interlocal agreement should be sent to our office using the following email address: LGA.Web@cot.tn.gov.

See ***Appendix D, Section 6***, Selected State Laws Affecting Special Purpose Governments – Audits, Regulatory and Other Reporting to Local Government Audit, for other reporting requirements. Appendix D, Section 6, is included to assist other special purpose governments in identifying compliance matters that are relevant to their operations. However, it is not exhaustive and should not be relied on to identify all compliance requirements.

SECTION E

REPORTING AND AUDITING REQUIREMENTS NONPROFIT ORGANIZATIONS

Nonprofit Organizations

Background

Nonprofit organizations (other than those that meet the definition of a special purpose government) which include as defined by Section 4-3-304(8), Tennessee Code Annotated, as all persons, corporations, or other entities of the state that receive funds from the various departments of the State of Tennessee through contractual agreements that establish a recipient or subrecipient relationship are subject to various auditing and reporting requirements. In addition, some departments may include an audit requirement in contracts that establish a vendor relationship.

Contracts between nonprofit organizations and the State of Tennessee may involve only state money. However, the contracts often involve federal money received by the State of Tennessee and subsequently used to provide funding to nonprofit organizations. State contracts that include these federal flow-through funds must be combined with other federal funding sources for the purpose of evaluating the applicability of current federal audit requirements. Nonprofit organizations that are required to submit audited financial statements to the Tennessee Comptroller's Office and that meet the audit threshold for a Single Audit must submit the Single Audit to the Tennessee Comptroller's Office.

Any nonprofit organization that receives grant funding from or through the State of Tennessee is required to contract for an audit through the Comptroller's Office for an audit conducted in accordance with the provisions of *Government Auditing Standards*. For grantee fiscal years beginning on or after October 1, 2024, the audit threshold shall apply for the following:

(1) Total state funds expended under grant contracts with the State of Tennessee are $1,000,000 or more; **or**
(2) Total federal funds expended under subrecipient grant contracts with the State of Tennessee are $1,000,000 or more; **or**
(3) Total state grant funds and federal subrecipient grant funds expended under grant contracts with the State of Tennessee are $1,000,000 or more; **or**
(4) If the organization expended federal funds under subrecipient grant contracts with the State of Tennessee, then when, total federal funds expended under subrecipient grant contracts with the State of Tennessee **plus** any federal funds expended under subrecipient grant contracts with all other funding sources (e.g., cities, counties, universities, public housing authorities, quasi-governmental agencies and other nonprofit agencies, etc.), **plus** any federal funds expended under all direct awards from federal agencies, are $1,000,000 or more.

Item (4) above is directed by *Uniform Guidance*, Part 200 332.(g) which indicates that all pass-through entities must "verify that every subrecipient is audited as required by Subpart F of this part."

The budgeted composition of state contracts can generally be determined through a review of the Contract Summary Sheet attached to the contract. If a summary sheet is not available, the department executing the contract should be contacted to determine the funding source(s). Actual payment information should also be confirmed with the contracting department since budgeted amounts may differ from the final payments both in amount and funding composition.

Contracts that establish a recipient or subrecipient relationship or that are subject to audit take many forms. Each contract should be evaluated to determine whether it should be treated as establishing a recipient or subrecipient relationship or is otherwise subject to audit. Such contracts should include an audit provision that refers to the current federal guidance. If there is any doubt regarding the audit requirement for a particular contract, the contracting department should be contacted.

Program-Specific Audits See ***Section I***.

Financial Reporting

General

Audit reports for nonprofit organizations shall conform to the requirements of the Financial Accounting Standards Board (FASB).

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in Appendix A. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act.

SECTION F

REPORTING AND AUDITING REQUIREMENTS FOR-PROFIT ORGANIZATIONS

Background

A for-profit organization is an entity whose primary goal is to generate a profit. A for-profit organization may receive state grants or federal funds under subrecipient grant contracts with the State of Tennessee.

Uniform Guidance, Part 200.501(i) indicates this subpart (F - Audit Requirements) does not apply to for-profit subrecipients. This part states that the pass-through entity is responsible for establishing requirements to ensure compliance by for-profit subrecipients. Examples to ensure compliance for federal awards may include pre-award audits, monitoring throughout the performance of the subaward, and post-award audits. The state's subaward with a for-profit subrecipient describes applicable compliance requirements for the for-profit subrecipient.

Any for-profit organization that receives grant funding from or through the State of Tennessee is required to contract for an audit through the Comptroller's Office for an audit conducted in accordance with the provisions of *Government Auditing Standards* in the following circumstance:

> Total state grant funds and/or federal subrecipient grant funds expended under grant contracts with the State of Tennessee are $1,000,000 or more for grantee fiscal years beginning on or after October 1, 2024.

The budgeted composition of state contracts can generally be determined through a review of the Contract Summary Sheet attached to the contract. If a summary sheet is not available, the department executing the contract should be contacted to determine the funding source(s). Actual payment information should also be confirmed with the contracting department since budgeted amounts may differ from the final payments both in amount and funding composition.

Contracts that establish a recipient or subrecipient relationship or that are subject to audit take many forms. Each contract should be evaluated to determine whether it should be treated as establishing a recipient or subrecipient relationship or is otherwise subject to audit. Such contracts should include an audit provision. If there is any doubt regarding the audit requirement for a particular contract, the contracting department should be contacted.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required if the organization has expended any federal or State of Tennessee recipient or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. The composition of the schedule should conform to the example in ***Appendix A***. The schedule should identify any funding that was passed through to another entity.

SECTION G

REPORTING AND AUDITING REQUIREMENTS INTERNAL SCHOOL FUNDS AND CAFETERIA FUNDS

INTERNAL SCHOOL FUNDS

Background

Section 49-2-110, Tennessee Code Annotated**,** is titled "Student Activity Funds". However, the text of the law references activity funds and other internal school funds in several places. Section 49-2-603, Tennessee Code Annotated, though explicitly only applicable to that part, has a detailed definition and description of what internal school funds are. That definition is reproduced below:

> **(2)** Internal school funds mean any and all money received and accounted for at individual schools, and specifically include, but are not limited to:
>
> **(A)** Any donation or grant made to the school, a school club, or any academic, arts, athletic, or social activity related to a school;
>
> **(B)** Funds for cafeteria services operated at the school;
>
> **(C)** Fees collected by the school;
>
> **(D)** Funds transferred to the local school from the school board that are to be accounted for at the local school level;
>
> **(E)** Funds raised through cooperative agreements with outside organizations;
>
> **(F)** Rental fees charged outside entities for use of school facilities; and
>
> **(G)** Student activity funds;

Student activity funds and other internal school funds maintained by each school must be audited annually in accordance with Section 49-2-112, Tennessee Code Annotated.

There are five basic types of school systems: county, municipal, charter schools, special school districts, and innovative school districts. County school systems with centralized cafeteria funds are required to contract with external independent accountants to perform certain procedures for

the Division of Local Government Audit, which they rely on when conducting their audit of the respective county. As a matter of convenience, these centralized cafeteria procedures are included in the contract for the audit of the internal school funds. Reference to these procedures should be included in the special provisions section of the contract to audit accounts. No separate report will be issued. Please see ***Appendix C*** for further information.

ACTIVITY AND CERTAIN OTHER INTERNAL SCHOOL FUNDS

Background

These activities are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, Tennessee Code Annotated) and the ***Internal School Funds Manual***. Activity funds and certain other internal school funds are derived from contributions, fundraisers, allocations, fees, cooperative agreements, etc. and are accounted for in the general and restricted funds of the schools. The same auditing and reporting requirements apply to the internal school funds of county, city, charter school, special school district, and innovative school district systems.

Charter schools with limited internal school funds activity may request a waiver of the separate internal school funds audit requirement. Audit exemption requests must be submitted to the Comptroller of the Treasury, Division of Local Government Audit, as explained in the annual audit contract request memo. If the total internal school funds revenues or expenditures are more than $30,000, a separate internal school funds audit in accordance with the *Internal School Funds Manual* should be issued regardless of materiality.

Auditing Considerations

When obtaining representations related to audits of activity and certain other internal school funds, it is the position of the Comptroller's Office that those representations should be obtained from the superintendent/director of schools, when that individual is active in the management of the internal school funds, as well as the principal and bookkeeper for each school.

Financial Reporting

General

Financial statements for activity funds and certain other internal school funds are prepared using a regulatory basis of accounting. Audit reports should follow the general report outline provided in Section 7 of the *Internal School Funds Manual.* Requirements, example statements, example schedules, and other guidance are detailed in the school manual.

Additional Requirements of the Comptroller's Office

1. An opinion must be expressed on the combined and individual school financial statements.

2. An opinion on whether other accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

3. A Schedule of Expenditures of Federal Awards and State Financial Assistance. This schedule is required when federal and/or State of Tennessee recipient or subrecipient funds are expended, regardless of amount expended. Assistance in the form of loans must separately identify both the federal and state portions. An example schedule is included in ***Appendix A***. Refer to Section A for requirements applicable to entities not subject to the Single Audit Act

CAFETERIA FUNDS

Background

Noncentralized cafeteria funds, also referred to as school nutrition funds, are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, Tennessee Code Annotated) and the ***Internal School Funds Manual***. The administrative activities (payroll, accounting, purchasing, etc.) of noncentralized systems are performed at the individual schools. A centralized cafeteria system is one in which substantially all of the administrative activities are accounted for and reported by the local board of education.

Financial Reporting

General

Noncentralized Systems

Noncentralized cafeteria systems receive and account for money related to cafeteria operations at the individual schools and are therefore considered to be internal school funds. Audit reports for noncentralized cafeteria funds shall conform to the general report outline. The required statements and schedules for these funds, which are prepared based on accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB), are detailed in the *Internal School Funds Manual*.

Centralized Systems County Schools

Centralized systems account for the operations of the cafeterias in a central location (at the board of education) and not at the individual schools. Therefore, they are not defined as internal school funds. Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. However, because the documentation related to compliance with federal program requirements is maintained by the individual schools, the internal school funds auditor for the county school system audited by Local Government Audit staff is required to contract for and perform certain compliance procedures, generally referred to as USDA Procedures, as a subcontract auditor for the Division of Local Government Audit. These procedures may be found in ***Appendix C***. Documentation related to these procedures must be completed and available for review by September 30th following the fiscal year being audited (e.g., procedures related to the June 30, 2026 fiscal year would be due September 30, 2026). A separate report on these procedures is not required; however, local government auditors will review the audit documentation to ensure that sufficient work was performed and adequately documented. The Division of Local Government Audit will rely on the contracted work as a basis for their opinion.

Centralized Systems (Municipal, Special School Districts, Innovative School Districts, and Charter Schools)

Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. The design and performance of audit procedures related to compliance with federal programs are the responsibility of the firm conducting the audit of the board of education.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. Noncentralized systems are required to include a Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the entity has expended any federal assistance or State of Tennessee recipient or subrecipient funds, regardless of the amount expended. The composition of the schedule should conform to the example in ***Appendix A***.)

SECTION H

REPORTING AND AUDITING REQUIREMENTS ENTITIES RECEIVING FUNDS ONLY THROUGH THE MEDICAID WAIVER PROGRAM (DDA)

Department of Disability and Aging (DDA)
Medicaid Waiver Contracts

Background

Certain service/vendor contracts, also referred to as provider agreements, executed with DDA include an audit requirement. This requirement is meant to provide DDA with information relevant to their legal responsibilities. Beginning in 2009, audits related solely to these contracts have been contracted for through the Department of Audit. Many organizations are private companies that would normally not be required to contract for an audit. Based on the contractual audit requirement, agencies that expend $1,000,000 or more in assistance under these DDA agreements will be required to follow most of the requirements that apply to all other organizations contracting with the Division of Local Government Audit. The audit threshold for entities under DDA provider agreements has increased to $1,000,000 for the fiscal years beginning on or after October 1, 2024.

The Medicaid waiver program serves Tennessee citizens with intellectual disabilities. The funds that are disbursed cover services such as dental care, day services, nutrition services, and occupational therapy. Federal funds are used to provide these services; however, the agencies receiving these funds are providing a service for specific individuals and the character of the funds lose their federal identity. That is, the program and related disbursements for services do not constitute subrecipient funding, even though the original funding source is the federal government. The recipients are the individuals being served, not the vendors providing the service.

Financial Reporting

General

Audit reports for entities receiving **only** DDA Medicaid waiver funds shall conform to the general report outline in ***Section A***. The required statements and schedules for these funds, shall comply with GAAP relevant to the type of organization being audited.

Additional Requirements of the Comptroller's Office

1. Some entities may be sole proprietorships. It would not be uncommon for this type of entity to have no assets, liabilities, or equity; however, a balance sheet must still be included, with 0's for all amounts.

2. An opinion on whether any accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, if a Schedule of Expenditures of Federal Awards and State Financial Assistance is required (see item 3 below), it must be opined on in relation to the basic financial statements.

3. The Schedule of Expenditures of Federal Awards and State Financial Assistance does **not** need to be included if the only funding is related to the Medicaid waiver contract. However, if the organization receives any State of Tennessee recipient or subrecipient funding, the provisions in ***Section E*** related to this schedule should be adhered to.

SECTION I

REPORTING AND AUDITING REQUIREMENTS PROGRAM SPECIFIC AUDITS

Background

Program specific audits must be approved by the grantor and the Comptroller's Office. When federal awards are expended, the grantee and auditor should take special care to ensure compliance with any additional requirements of the federal granting agency. The Comptroller of the Treasury requires program-specific audits of state funds be conducted in accordance with *Government Auditing Standards* (Yellow Book).

Any program specific audit submitted to the Comptroller's Office that has not been preapproved will not be accepted.

There are two basic reporting options, and the option that will be used must be agreed upon by the entity, grantor, and Comptroller's Office prior to executing a Contract to Audit Accounts. The agreed upon option should be referenced in the special provisions section of the Contract to Audit Accounts.

Financial Reporting

State Assistance Only:

Option 1

The basic report outline is:

- the Independent Auditor's Report;
- detailed Schedule of Revenues and Expenditures (expenses) (detail includes presenting expenditures/expenses by natural classification; e.g., salaries, office supplies, repairs and maintenance, etc.)
- Schedule of Expenditures of State Financial Assistance;
- the report on internal control and compliance required by *Government Auditing Standards*.

Option 2

The basic report outline is:

- complete financial statements for the program;
  (titles of statements, basis of accounting, etc. dependent on the entity type)
  - Balance Sheet/Statement of Net Position/Financial Position;
  - Operating Statement/Statement of Revenues, Expenses/Expenditures and Changes in Fund Balance/Net Position/ /Statement of Activities;
  - Statement of Cash Flows (if applicable);
  - Schedule of Expenditures of State Financial Assistance;
  - the report on internal control and compliance required by *Government Auditing Standards*.

Federal Assistance Only or Federal and State Assistance (through the State of Tennessee):

Follow the reporting and auditing requirements in Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the current edition of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

In addition, coordinate with the grantor and Comptroller's Office to ensure that any additional requirements are identified and included in the Contract to Audit Accounts.

SECTION J

REPORTING AND AUDITING REQUIREMENTS MEDICAID ENGAGEMENTS

Reporting Requirements and Examination Procedures for Medicaid Engagements

NURSING FACILITIES

Introduction

The Tennessee Department of Finance and Administration is the single state agency responsible for administering the Tennessee Medicaid Nursing Facility Program, which is part of the Tennessee Medical Assistance Program under Title XIX of the Social Security Act.

The Tennessee Department of Finance and Administration, Division of TennCare, in meeting its obligation, has contracted with the Tennessee Comptroller of the Treasury to perform the examinations. The Comptroller of the Treasury is authorized under Tennessee Code Annotated (TCA) 71-5-130 to audit cost data, statistical data, and other information submitted by any vendor providing health care that receive payment pursuant to this part.. --

Examinations of nursing facilities participating in the Medicaid program are intended to meet the following objectives:

1. The first objective is to determine if revenue and expenses reported on the Skilled Nursing Facility and Medicaid Supplemental Cost Reports are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

2. The second objective is to determine whether resident days reported on the Skilled Nursing Facility and Medicaid Supplemental Cost Reports have been counted in accordance with state rules and regulations, and Medicaid resident days billed to the state when residents were discharged are in accordance with state rules and regulations.

3. The third objective is to determine whether charges to residents or residents' personal funds are in accordance with state and federal rules and regulations, Nursing Facility Manual, and the agreement between the facility and the Department of Finance and Administration.

4. The fourth objective is to determine whether credit balances for Medicaid resident accounts receivable are properly managed and refunded in accordance with state and federal rules and regulations.

Medicaid Rules and Regulations

The state regulations that govern the administration of the Tennessee Medicaid Nursing Facility Program with respect to reimbursement and coverage issues are contained in Chapter 1200-13 of the Rules of the Department of Finance and Administration, Division of TennCare. Chapter 0720-18 of the Rules of the Tennessee Health Facilities Commission contains the nursing facility minimum standards that deal with matters such as building standards, safety requirements, and other quality of care rules. Since the nursing facility payment methodology is based on Medicare principles of reimbursement, the *Medicare and Medicaid Guide* also serves as a regulatory source. Medicaid nursing facility coverage in general is set forth in the Nursing Facility Manual From time to time, the department issues "Medicaid Bulletins" to update providers on policy changes or interpretations of current policy.

Cost Reporting Requirements

Nursing facilities are required to submit a Medicaid Supplemental cost report and a Skilled Nursing Facility cost report annually to the Comptroller's Office. Both cost reports are due within 5 months of the facility's fiscal year end. Intermediate care facilities for individuals with intellectual disabilities are required to submit an intermediate care statement of reimbursable cost that is due within 3 months of its fiscal year end.

Examinations

The examination procedures to be conducted by the Tennessee Comptroller's Office are given below in condensed form along with the associated criteria. It should be noted that the nursing facility manual was issued in January 1987. Although the manual has not been revised, several Medicaid bulletins have been issued for rule revisions. We have made revisions in the criteria given below where appropriate.

Expenses–Criteria

The cost report rules in Chapter 1200-13 and the nursing facility accounting principles are the primary sources for criteria concerning allowable costs. If an item is not addressed in the rules or apportionment principles, Medicare principles of retrospective cost reimbursement apply, and reference should be made to the *Medicare and Medicaid Guide.*

Expenses–Procedures

1. Compare salaries on the Skilled Nursing Facility Cost Report to the provider's quarterly wage reports. If the wage reports are not available, use the facility's payroll records.

2. Trace direct care salaries reported on schedule C of the Medicaid Supplemental Cost Report to the payroll records. Verify the salaries are reported on the appropriate line of the Medicaid supplemental cost report and that those employees are providing direct care.

3. Review the quarterly wage reports for reasonableness. Any non-owner employee's salary that exceeds $20,000 per quarter should be examined for reasonableness.

4. Obtain a signed statement from owner-employees or their relatives, stating their duties, percentage of time worked, and compensation, including all fringe benefits. This data is then used to test the accuracy of the maximum allowable salary limits for the provider. The rules for applying the salary limits are given in the cost report apportionment principles.

5. Select transactions from other expense accounts for review. The transactions selected for review should cover the entire examination period, if feasible. Describe the method for selecting the transactions reviewed.

6. Scan the ledgers and journals for unusual items.

7. For the selected test transactions, examine the paid check and invoice. Determine if the expense is allowable.

8. Verify raw food reported on the Medicaid Supplemental Cost Report is only food, food supplementals and enteral nutrition.

9. Verify that any new additions to property or equipment are properly recorded at cost and are present at the facility.

10. Obtain and review support for interest expense and trace the amounts to the cost report.

11. Review the adjustments made to section A-8 and A-8-1 of the Skilled Nursing Facility Cost Report.

12. Determine if the general ledger control account is supported by a listing of accounts payable or if the open items can be identified.

13. If considered necessary, verify that year-end payables have been paid in the subsequent period.

14. If the facility was identified as financially struggling, scan the general ledger and select invoices for further testing.

Resident Days–Criteria

The criteria governing resident days are found in Chapter 1200-13 of the Rules of the Tennessee Department of Finance and Administration, Division of TennCare.

Resident Days–Procedures

1.
Trace total resident days reported on the nursing facility cost report to the facility's census (or resident log).
2. List the monthly totals and compare them to the available days for that month.

3. Physically examine the private rooms reported on the Medicaid Supplemental Cost Report.

4. Review one month of census records for each six months during the examination period for Medicaid residents who were discharged or deceased. Verify the facility was not reimbursed for the date the Medicaid resident was discharged or deceased if before noon.

Trust Funds–Criteria

Chapter 1200-13 and TCA 68-11-906 provide rules and regulations governing trust funds. The Nursing Facility Manual provides guidance on the treatment of resident deposits. Personal Needs Allowance (PNA) is established for each Enrollee receiving Long-Term Services and Supports (LTSS) in accordance with the Tennessee Medicaid State Plan, approved Section 1915(c) Waiver applications, and these rules. It is deducted from the Enrollee's monthly income in calculating Patient Liability for LTSS.

TCA 66-29-123, governs the disposition of balances owed to residents after they have left the facility. Generally, the law requires nursing homes to report unclaimed property and credit balances to the Tennessee Department of Treasury each year. However, nursing facilities may, at their option, elect to hold the funds for the statutory period from the date of last account activity before reporting to the Tennessee Department of Treasury. Chapter 1700-02 of the Rules of the Tennessee Department of Treasury, Division of Unclaimed Property, provides additional guidance if the nursing facility holds the funds for the statutory period. The nursing facility must document that it has made a reasonable attempt to locate the owner of the funds. At the end of the statutory period, any accrued interest must also be reported and returned to the Tennessee Department of Treasury.

A nursing facility shall not charge a TennCare enrollee for a covered service. Non-covered services may be charged directly to the resident, upon prior notification by the nursing facility to the resident that the service is not covered.

Trust Funds–Procedures

1. As of a specific date, balance the trust fund subsidiary accounts to the general ledger control account.

2. Balance cash on hand and in bank to the general ledger control account.

3. Select Medicaid trust fund accounts, and for the examination period, test each account for

    a. receipt of the monthly personal needs allowance;

    b. documentation that withdrawals are for personal needs only and not for covered services;

    c. placement of all funds in excess of $100 per recipient in an insured interest-bearing account.

4. Check the trust fund accounts of deceased or discharged Medicaid recipients for credit balances.

5. Examine the resident trust fund surety bond and determine if the coverage is adequate to cover the account balance at any point during the period.

6. Determine whether any resident's trust fund balance exceeds $2,000, the resident resource limitation for eligibility to receive Medicaid assistance.

Accounts Receivable–Criteria

The criteria for examining resident accounts are general in nature and do not differ significantly from procedures for examining accounts receivable. However, several special circumstances are explained in the following paragraphs.

Medicaid residents must not be charged above the private rate for comparable services. If private-pay residents are charged extra for central supplies or other items that are included in the rate for Medicaid residents, these items should be added to the private resident charge to arrive at a comparable service for this test.

Tennessee Anytime indicates the amount the resident is to pay toward his or her room and board. Testing for extra charges is similar to testing the trust fund for covered services.

Accounts Receivable–Procedures

1. Obtain a list of yearly totals of charges from the provider's resident log. Charges for covered services should agree to charges per resident log before any contractual adjustments. Select residents for each payor type and determine the average daily charge. Ensure that the average daily charge for Medicaid residents is not greater than the average daily charge for any other payor type.

2. Scan all ledger accounts for unrefunded credit balances for deceased or discharged Medicaid residents.

3. Determine whether the facility-maintained evidence that the Medicaid resident's authorized representative was notified of a credit balance.

4. Select Medicaid residents whose funds are not included in the resident trust fund and determine if the facility is providing basic personal services free of charge to Medicaid residents.

Independent Accountant's Report

(Date)

The Honorable Bill Lee, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Steven Smith, Deputy Commissioner
Division of TennCare
310 Great Circle Road, 4W
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated _____, that _____ complied with the following requirements:

- Revenue and expenses reported on the Skilled Nursing Facility and Medicaid Supplemental Cost Reports for the fiscal year ended _____, are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

- Resident days reported on the Skilled Nursing Facility and Medicaid Supplemental Cost Reports have been counted in accordance with state rules and regulations. Medicaid resident days billed to the state from _____ through _____, when residents were discharged are in accordance with the rules.

- Charges to residents or residents' personal funds from _____through _____, are in accordance with state and federal rules and regulations, complied with the Nursing Facility Manual, and the agreement between the facility and the Department of Finance and Administration.

- Credit balances for Medicaid resident accounts receivable as of _____ are properly managed and refunded in accordance with state and federal rules and regulations.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and

perform the examination to obtain reasonable assurance about whether management's assertions are fairly stated, in all material respects with the requirements specified above.

An examination involves performing procedures to obtain evidence about management's assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our unmodified opinion. Our examination does not provide a legal determination on the entity's compliance with specified requirements.

We are required to be independent of _____ and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to the examination engagement.

In our opinion, management's assertions that _____complied with the aforementioned requirements for the income and expenses reported on the Skilled Nursing Facility and Medicaid Supplemental Cost Reports for the period _____, through _____; resident days for the period _____, through _____; resident accounts for the period _____, through_____; and for accounts receivable as of _____ are fairly stated in all material respects.

This report is intended solely for the information and use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Maya Angelova, CPA, CFE, Director
Division of Health Provider Review

Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC)

Introduction

The Comptroller of the Treasury is authorized under Tennessee Code Annotated Section, 71-5-130 to audit cost or statistical data submitted by any vendor providing health care. The Tennessee Department of Finance and Administration, Division of TennCare, in meeting this obligation, has contracted with the Tennessee Comptroller of the Treasury to perform examinations of Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) participating in the Tennessee Medicaid Program under Title XIX of the Social Security Act (Medicaid).

FQHC/RHC examinations are intended to meet the following objectives:

1. The first objective is to determine if expenses reported on the TennCare Medicaid FQHC/RHC Cost Report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

2. The second objective is to determine if the total number of visits provided for FQHC/RHC services has been appropriately counted on the TennCare Medicaid FQHC/RHC Cost Report.

3. The third objective is to determine whether TennCare visits and payments are reported in accordance with state and federal rules and regulations.

Medicaid Rules and Regulations

Tennessee's Medicaid Supplemental Payments for FQHCs and RHCs is described in attachment 4.19-B of the Tennessee State Plan under Title XIX of the Social Security Act Medical Assistance Program. Chapter 1200-13-22 of the Rules of the Tennessee Department of Finance and Administration, Division of TennCare , provides guidance and requirements for Medicaid Cost Reporting, Supplemental Payment Establishment for a New RHC and FQHC, Change in Scope, and Determination of a Reimbursable Visit.

A FQHC's initial supplemental payment rate is established using the allowable costs and visits reported on the FQHC's cost report. The method for establishing an RHC's rate is based on the clinic's effective date.

1. The supplemental payment rate for RHCs with effective dates prior to October 25, 2017, is established using the allowable costs and visits reported on the RHC cost report.

2. For clinics with effective dates between October 25, 2017, and September 30, 2019, a clinic has a choice between a caseload adjusted regional rate or a rate established using allowable costs and visits reported on the RHC cost report.

3. For RHCs with effective dates after September 30, 2019, with rates established prior to June 4, 2025, the rate is established based on the clinic's caseload and location in the State of Tennessee. The rate for clinics with less than 14,000 annual visits is a caseload adjusted regional rate. The rate for clinics with 14,000 or more total annual visits is established using allowable costs and visits reported on the cost report.

4. For a New RHC or FQHC establishing a rate after June 4, 2025, Supplemental Payment Establishment is addressed in 1200-13-22.-04.

After the initial rate is determined, the supplemental payment rate is adjusted at the beginning of each state fiscal year (July 1) based on the Medicare Economic Index. Since the rate methodology is based on Medicare principles of cost reimbursement, the Medicare and Medicaid Guide serves as a regulatory source.

Cost Reporting Requirements

Chapter 1200-13-22, requires RHCs, FQHCs to submit the TennCare Medicaid FQHC/RHC Cost Report to the Comptroller's Office within one hundred and fifty (150) days of the RHCs or FQHCs' end of fiscal period.

Examinations

The examination procedures to be conducted by the Tennessee Comptroller's Office are given below in condensed form along with the associated criteria.

Visits and Payments – Criteria

The clinics contract with the TennCare managed care organizations (MCOs) and file claims with the MCOs for services provided to TennCare enrollees. To request supplemental payments, clinics submit a settlement request to the Office of the Comptroller of the Treasury with the number of visits and payments for TennCare services. A clinic's supplemental payment rate is multiplied by the clinic's self-reported visits to calculate the Medicaid PPS reimbursable costs. The Division of TennCare remits a supplemental payment to the clinic for the difference between the clinic's Medicaid reimbursable costs and the payments reported by the clinic.

A visit is a medically necessary, face-to-face medical, mental health, or qualified preventative encounter between the patient and a qualifying provider during which one or more qualified covered services are between the patient and a qualifying licensed provider included in Chapter 1200-13-22.01(17). Behavioral health must be in the FQHC's/RHC's scope of services approved by the state to be included in the settlement calculation. Visits performed via telehealth are considered a face-to-face visit eligible for supplemental reimbursement provided certain criteria is met as outlined in Chapter 1200-13-22-.05(9)

Payments are all payments that the FQHC/RHC receives on behalf of TennCare enrollees, including MCO payments, including any capitated or other payment arrangement the facility may have with the MCO, and any third-party liability or patient liability payments. FQHC/RHC

payments include payments for ancillary services, screening services, and other services included in the federal definitions of FQHC and RHC services at United States Code Title 42 Section 1396d(l). .Certain payments may be excluded from the supplemental payment requests as outlined in Chapter 1200-13-22-.05(11).

Visits and payments for Medicare and dual enrollees are reimbursed on the Medicare payment system; therefore, they are not eligible for the TennCare supplemental payment. For purposes of this program, dual enrollees are individuals enrolled in both Medicaid and Medicare Part B (or any Medicare-approved plan which includes Medicare Part B, such as Medicare Advantage). Medicare is the primary payor for dual enrollees. Chapter 1200-13-13-.09 of the *Rules of the Tennessee Department of Finance and Administration*, states, "TennCare shall be the payor of last resort, except where contrary to federal or state law."

CoverKids is Tennessee's Children's Health Insurance Program, authorized by Title XXI of the Social Security Act and jointly financed and administered by the federal and state governments. CoverKids is available to children under age 19 and pregnant women who are not eligible for TennCare Medicaid. FQHCs and RHCs should submit a separate supplemental payment request to the Comptroller's Office that contains the number of visits and payments for CoverKids services. The state will make supplemental payments to the clinic for the difference between the clinic's Medicaid reimbursable costs and payments reported by the clinic. This process for submitting settlement requests and receiving settlements is similar to TennCare's supplemental reimbursement; however, CoverKids visits and payments must be separately reported and paid due to the distinctly allotted federal funds. Therefore, CoverKids visits and payments are not included in the calculation of TennCare visits and payments.

Before reporting any visits and payments on the supplemental payment requests, all claims must be submitted to and deemed "paid" by the TennCare MCO.

Visits and Payments – Procedures

1. Verify with the appropriate personnel the basis used in accumulating visits and payments for supplemental payment requests submitted to the Office of the Comptroller of the Treasury. Inquire if the provider has:

    - Excluded dual enrollees;

    - Ensured all claims are deemed "paid" by the TennCare MCO;

    - Included in visits only medically necessary, face-to-face medical, mental health, or qualified preventive encounter between the patient and a qualifying licensed provider during which a qualified service is furnished consistent with the federal regulations found at Title 42, Code of Federal Regulations, Part 405, Section 2463, and Part 440, Section 20(b)-(c);

- included all payments on behalf of the TennCare enrollee, including MCO payments, third party liability payments, and patient liability payments; and

- excluded certain visits and payments as outlined in Chapter 1200-13-22.

2. Verify accuracy of visits and payments for TennCare services.

3. Examine source documents used to prepare the supplemental payment requests.

4. Examine medical records for a sample of TennCare claims.

5. Examine the total number of visits provided for FQHC/RHC services reported on the Medicaid TennCare FQHC/RHC cost report.

6. Review patient logs and compare to total visits reported on the cost report.

Expenses– Criteria

The clinics are required to submit a Medicaid cost report. The Medicare and Medicaid Guide serves as a regulatory source. Expenses reported on the cost report should be reasonable, allowable, supported, and related to patient care.

Expenses– Procedures

1. Compare salaries on the cost report to the provider's quarterly wage reports. If the wage reports are not available, use the facility's payroll records.

2. Review the quarterly wage reports for reasonableness. Any non-owner employee's salary that exceeds $20,000 per quarter should be checked for reasonableness.

3. Obtain a signed statement from owner-employees and their relatives, stating their duties, percentage of time working, and compensation, including all fringe benefits. Review expense testing for possible inclusion of personal expenses which should be classified as owner's compensation. Determine reasonableness of compensation.

4. Select transactions from other expense accounts for review. The transactions selected for review should cover the entire examination period, if feasible. Describe the method for selecting the transactions reviewed.

5. Scan the ledgers and journals for unusual items.

6. For the selected test transactions, examine the paid check and invoice. Determine if the expense is allowable.

7. If this is the first cost report, verify that property is properly recorded at cost and is present at the facility.

8. Review the depreciation computations for the examination period.

9. Obtain and review support for interest expense and trace the amounts to the cost report.

10. Review the adjustments made to the Trial Balances Adjustments tab of the Medicaid cost report.

Independent Accountant's Report

(Date)

The Honorable Bill Lee, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Steven Smith, Deputy Commissioner
Division of TennCare
310 Great Circle Road, 4W
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated _____ that _____ complied with the following requirements:

- Expenses reported on the TennCare Medicaid FQHC/RHC Cost Report for the period _____, through _____, are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

- Total number of visits provided for FQHC/RHC services have been appropriately counted on the TennCare Medicaid FQHC/RHC Cost Report for the period _____, through _____.

- TennCare visits and payments received on behalf of TennCare enrollees for the period _____, through _____, were reported in accordance with state and federal rules and regulations.

_____ management is responsible for its assertions. Our responsibility is to express an opinion on management's assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we obtain reasonable assurance about whether management's assertions are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertions. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertions, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our unmodified opinion. Our examination does not provide a legal determination on the entity's compliance with specified requirements.

We are required to be independent of _____ and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to the examination engagement.

In our opinion, management's assertions that _____complied with the aforementioned requirements for the expenses reported on the cost report for period _____, through _____, total visits reported on the cost report for the period _____, through _____, and for TennCare visits and payments received on behalf of TennCare enrollees for the period _____, through _____, are fairly stated in all material respects.

This report is intended solely for the information and use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Maya Angelova, CPA, CFE, Director
Division of Health Provider Review

SECTION K

REGULATORY REPORTING AND REQUIRED FILING

There are many regulatory reports that must be filed by entities that are required to submit an audit to the Comptroller's Office. This section only addresses those requirements where a regulatory report must be filed with Local Government Audit. Other divisions within the Comptroller's Office may have additional regulatory filing requirements that are not addressed in this manual.

Specialty License Plate Funds

Background

Pursuant to the requirements of Section 55-4-202(j), Tennessee Code Annotated (TCA), nonprofits that receive funds from the sale or renewal of a specialty earmarked license plate must file an annual accounting of all such funds with the Comptroller's office by September 30 of each year for funds received from July 1 through June 30 of the preceding state fiscal year.

Pursuant to Section 55-4-202(j)(3), TCA, if a nonprofit organization fails to comply with the annual accounting requirement, the commissioner of the department or agency responsible for paying the specialty earmarked license plate or new specialty earmarked license plate proceeds shall, at the request of the comptroller of the treasury, hold the proceeds in reserve until the nonprofit organization submits its annual accounting and the comptroller notifies the department or agency to release the funds. Any costs associated with holding the plate proceeds shall be deducted from the reserve fund as an administration fee.

Regulatory Reporting

The current reporting guidance can be found under the General Guidance Tab on Local Government Audit's website. The Guidance for Annual Statutory Accounting of Specialty License Plate Funds document includes example reporting in Section D. The regulatory reporting package must be submitted by the nonprofit entity.

Local Government Joint Venture Entities (interlocal agreements)

Background

Sections 12-9-101 – 112, TCA, permit two or more local government entities to create local government joint ventures. Local government joint venture entity means any entity created pursuant to this chapter, including, but not limited to, a self-insurance pool, trust, joint venture, nonprofit organization, or any other type of organization that is sponsored, owned, operated, or governed by two (2) or more local government entities as a separate and specific activity.

Interlocal agreements which do not create a separate entity are not subject to the reporting requirements of this TCA section.

Regulatory Reporting

Any interlocal agreement entered into by local governments that creates a local government joint venture entity must be filed with Local Government Audit within ninety (90) days of execution of the agreement. If the participants or structure of the local agreement joint venture changes, please file an updated agreement with Local Government Audit.

The filing of the regulatory report is the responsibility of the local government joint venture entity. Each participating local government does not have to file individually. A copy of the interlocal agreement should be sent to our office via email at: LGA.Web@cot.tn.gov.

Summary financial information is required to be submitted to the Comptroller's Office annually if the local government joint venture does not submit audited financial information. The summary financial information should be submitted through the Contract and Report System (CARS) as unaudited financial information. At a minimum, the submission should include annual revenues, expenses, and ending fund balance/net position.

Volunteer Fire Departments

Background

Section 68-102-303, TCA states that no municipality, county or political subdivision shall operate a fire department, and no organization, agency, or entity shall operate as a fire department within the state of Tennessee unless it has been duly recognized to do so by the Tennessee Department of Commerce and Insurance, State Fire Marshal's Office.

Section 68-102-309, TCA requires the governing board of each recognized volunteer fire department receiving appropriations from "…the federal government, the state, a county or a municipality, either directly or indirectly, to file an annual financial report with the comptroller of the treasury and each local government body from which the department received appropriations…."

Regulatory Reporting

The report is to cover the period July 1 through June 30 of each year and is due no later than the following December 31. Each volunteer fire department is responsible for filing the regulatory report. Instructions for submitting the report, including an option for online submission, are on Local Government Audit's Volunteer Fire Departments Reporting Page. Volunteer fire department employees and governing board members should review the *Volunteer Fire Departments Financial Reporting and Procedures Manual*, which is also available on this website.

Charter Management Organizations

Background

Section 49-13-104, TCA defines a charter management organization (CMO) as a nonprofit entity that operates two (2) or more public charter schools in Tennessee. Section 49-13-127(a)(2), TCA authorizes the comptroller of the treasury to audit all financial transactions of a CMO for any charter school created pursuant to state statutes when deemed necessary or appropriate by the comptroller of the treasury. Audit and reporting requirements and options are detailed in the Accounting, Auditing and Reporting Guidance for Charter Schools available at Local Government Audit's Accounting & Auditing Information Page under the general guidance tab. Additionally, CMOs are required to file an annual reporting form with the comptroller of the treasury as described below

Regulatory Reporting

Section 49-13-127(a)(2)(b), TCA requires all CMOs operating a charter school in this state to file an annual financial report with the comptroller of the treasury detailing transactions between the CMO and any charter school operated by the CMO in Tennessee. The annual financial report must: (1) cover the fiscal year ending June 30; (2) be filed in a form prescribed by the comptroller of the treasury; and (3) be filed no later than August 31 of each year. The form, titled "Charter Management Organization (CMO) Annual Reporting" is available at Local Government Audit's webpage under the services column.

Direct Appropriation Grants

Background

A direct appropriation grant is a specific allocation of state funds authorized by the Tennessee General Assembly to entities such as local governments, nonprofit organizations, educational institutions, or specific projects. Unlike competitive grants, these grants do not require entities to apply through an open competitive process. Instead, the legislature identifies and designates the recipients and the purposes for these funds within the state's annual budget legislation.

Characteristics of Direct Appropriation Grants

- Legislative Authorization: Direct appropriations are established through legislation passed by the General Assembly and are included in the state's budget documents.
- Specificity: These appropriations are earmarked for particular entities or projects, with the intended use and recipient clearly identified in the legislative language.
- Non-Recurring Nature: Often, direct appropriations are designated for one-time expenditures, such as infrastructure projects or special initiatives, and are not intended to fund ongoing operational costs.
- Compliance Requirements: Recipients of direct appropriations must adhere to the terms set forth in the appropriation, including reporting and accountability measures as stipulated by the state.

Required Filing

Recipients of direct appropriation grants must sign a Letter of Agreement with the State of Tennessee, outlining the terms and conditions governing the appropriation. Reporting requirements are specified in the agreement and must be submitted to the appropriate state agency, with a copy provided to the Office of the Comptroller of the Treasury.

SECTION L

QUICK REFERENCE LINKS

Assistance Listings (federal programs)

https://sam.gov/content/assistance-listings

Collateral Pool Banks

https://treasury.tn.gov/Investments/Investment-Management/Bank-Collateral-Pool

Confirmation Contacts and Phone Numbers

https://comptroller.tn.gov/office-functions/la/e-services/confirmations/contacts.html

Contract to Audit Accounts

https://apps.cot.tn.gov/CARS/

County Chart of Accounts

https://comptroller.tn.gov/office-functions/la/resources/chart-of-accounts.html

Government Auditing Standards (Yellow Book)

http://www.gao.gov/yellowbook

Municipal Chart of Accounts

https://www.comptroller.tn.gov/office-functions/la/resources/chart-of-accounts/municipal-chart-of-accounts.html

On-line Confirmations

https://comptroller.tn.gov/office-functions/la/e-services/confirmations.html

Property Assessments

https://comptroller.tn.gov/office-functions/pa.html

State Department Directory

https://www.tn.gov/directory/

Tennessee Code Annotated

https://www.tncourts.gov/Tennessee%20Code

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

Governmental Accounting, Auditing, and Financial Reporting, (Blue Book)

https://www.gfoa.org/blue-book

Manuals

For a complete listing of manuals for which the Comptroller's Office is responsible, please visit the Comptroller's Manuals page.

https://www.comptroller.tn.gov/office-functions/la/resources/manuals.html

Local Government Audit Resources

Certain recurring situations and questions, reporting questions, new developments and other general information have been addressed on the Comptroller's web site. This information can be accessed on the web at:

Audit Resources/Guidance and Forms

https://www.comptroller.tn.gov/office-functions/la/resources/information.html

https://comptroller.tn.gov/office-functions/lgf/budgets/municipalities-counties-metros-utilities/general-guidance.html

https://comptroller.tn.gov/office-functions/lgf/debt/debt-guidance.html

APPENDIX A

EXAMPLE SCHEDULES

Schedule of Internal Receivables and Payables

Town of Anywhere
Schedule of Internal Receivables and Payables
June 30, 20XX

		Due from										
		General Fund	Solid Waste	Water & Sewer	Electric - Electric Division	Electric - Broadband Division	Gas	Internal Service	Fiduciary - Pension General	Fiduciary - Pension Electric	Fiduciary - OPEB	**Total**
Due to	General Fund	$ -	$ 5,000	$ -	$ -	$ -	$ -	$ 9,878	$ -	$ -	$ -	$ 14,878
	Debt Service	-	31,547	-	-	-	-	-	-	-	-	31,547
	Capital Projects	711,200	-	-	-	-	-	-	-	-	-	711,200
	Solid Waste	25,000	-	-	-	-	-	-	-	-	-	25,000
	Grants Management	15,777	-	-	-	-	-	-	-	-	-	15,777
	Drug Fund	2,314	-	-	-	-	-	-	-	-	-	2,314
	Water & Sewer	7,541	1,130	-	544	175	9,500	12,045	-	-	-	30,935
	Electric - Electric Division	5,122	1,856	2,714	-	850,000	-	-	-	-	-	859,692
	Electric - Broadband Division	789	-	-	-	-	-	-	-	-	-	789
	Gas	1,265	3,412	793	-	-	-	17,658	-	-	-	23,128
	Internal Service	6,700	1,423	911	5,112	477	2,151	-	10,111	9,114	7,442	43,441
	Fiduciary - Pension General	41,007	-	-	-	-	-	-	-	-	-	41,007
	Fiduciary - Pension Electric	-	-	-	27,434	-	-	-	-	-	-	27,434
	Fiduciary - OPEB	21,887	-	-	-	-	-	-	-	-	-	21,887
	Total	$ 838,602	$ 44,368	$ 4,418	$ 33,090	$ 850,652	$ 11,651	$ 39,581	$ 10,111	$ 9,114	$ 7,442	$ 1,849,029

Notes:
(1) Amounts due between divisions/departments should be reported on the schedule.
(2) Long-term advances should be reported on the schedule.

Schedule of Interfund Transfers

Town of Anywhere, Tennessee
Schedule of Interfund Transfers
For the Year Ended June 30, 20XX

From Fund	To Fund	Purpose	Amount
General	Debt Service	Principal and interest payments	$ 861,520
General	Transit System	To fund an operational deficit	312,796
General	Parks	To fund picnic shelters and paths at Laury Park	175,000
General	Corrections	To support operations	375,000
Capital Projects	Debt Service	Portion of bond proceeds used for a mandatory reserve	1,340,000
Highway/Public Works	Capital Projects	To pay for a corridor study	98,231
Solid Waste	Capital Projects	To fund a new recycling center	411,300
State Street Aid	Capital Projects	To fund street projects	189,141
Electric	General	In-lieu of tax payment	700,000
Water	General	In-lieu of tax payment	230,000
Total Transfers			$ 4,692,988

Schedule of Changes in Long-term Debt by Individual Issue

Town of Anywhere
Schedule of Changes in Long-term Debt by Individual Issue
June 30, 20XX

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Final Maturity Date	Outstanding 7-1-XX	Issued During Period	Paid and/or Matured During Period	Refunded During Period	Outstanding 6-30-XX
Governmental Activities									
NOTES PAYABLE									
Payable through Debt Service Fund									
Roof Repairs	$ 100,000	3.6 %	6-12-XX	12-1-XX	$ 10,000	$ 0	$ 10,000	$ 0	$ 0
Health Department	300,000	3.78	5-4-XX	5-1-XX	64,000	0	26,000	0	38,000
Total Notes Payable through Debt Service Fund					$ 74,000	$ 0	$ 36,000	$ 0	$ 38,000
FINANCED PURCHASES									
Payable through Debt Service Fund									
Headstart Facility	$ 1,200,000	3.6 %	12-1-XX	12-1-XX	$ 180,000	$ 0	$ 60,000	$ 0	$ 120,000
Total Financed Purchases Payable through Debt Service Fund					$ 180,000	$ 0	$ 60,000	$ 0	$ 120,000
BONDS PAYABLE									
Payable through Debt Service Fund									
General Obligation , Series 20XX	$ 4,580,000	3.5 to 3.7 %	12-15-XX	9-1-XX	$ 2,750,000	$ 0	$ 750,000	$ 2,000,000	$ 0
General Obligation Refunding, Series 20XX	2,200,000	1 to 3.0	3-25-XX	6-30-XX	0	2,200,000	0	0	2,200,000
Total Bonds Payable through Debt Service Fund					$ 2,750,000	$ 2,200,000	$ 750,000	$ 2,000,000	$ 2,200,000
Business-Type Activities									
OTHER LOANS PAYABLE									
Payable through Water Fund									
State Revolving Loans	$ 1,700,000	Variable %	7-13-XX	5-25-XX	$ 1,000,000	$ 0	$ 91,000	$ 0	$ 909,000
Line of Credit	100,000	4.00	7-1-XX	6-30-XX	0	15,000	0	0	15,000
Total Other Loans Payable					$ 1,000,000	$ 15,000	$ 91,000	$ 0	$ 924,000
BONDS PAYABLE									
Payable through Gas Fund									
Revenue Bond - Gas	$ 957,236	9.50 %	12-1-XX	12-1-XX	$ 645,896	$ 0	$ 46,689	$ 0	$ 599,207
Total Bonds Payable					$ 645,896	$ 0	$ 46,689	$ 0	$ 599,207

Notes:

(1) Long-term payables due between the primary government and component unit(s) should be reported on the applicable entity's schedule.

(2) Leases and contracts that transfer ownership (financed purchases) by the end of the lease/contract should be included on the schedule.

(3) Leases that result in the recognition of a lease liability and an intangible right-to-use asset should be reported on a separate schedule. See schedule on APP.A-4.

(4) Interfund notes approved by the Division of Local Government Finance should be included on the schedule (e.g., capital outlay notes, bond anticipation notes, in addition to tax and revenue anticipation notes).

Schedule of Changes in Lease Obligations

Town of Anywhere
Schedule of Changes in Lease Obligations
June 30, 20XX

LEASES PAYABLE												
GOVERNMENTAL ACTIVITIES												
Payable through General Debt Service Fund												
EMS Building Rental	$ 756,000	3.6 %	6-12-XX	12-1-XX	$ 352,000	$ -	$ 115,000	$ 0	$ 237,000
Health Department Building Rental	300,000	3.78	5-4-XX	5-1-XX	90,000	-	30,000	0	60,000
Total Payable through General Debt Service Fund					$ 442,000	$ -	$ 145,000	$ 0	$ 267,000
Contributions Due by the School Department from the General Purpose School									
Fund to the General Debt Service Fund									
Copiers - 20XX	300,000	3.6 %	Various	6-1-XX	$ 40,000	$ -	$ 40,000	$ 0	$ -
Copiers - 20XX	350,000	3.4	Various	4-1-XX	150,000	-	75,000	0	75,000
Copiers - 20XX	800,000	3.1	Various	6-4-XX	450,000	-	160,000	0	290,000
Copiers - 20XX	700,000	3.6	Various	5-7-XX	525,000		140,000	0	385,000
Copiers - 20XX	750,000	3.6	Various	6-28-XX	-	750,000	40,000	0	710,000
School Buses - 20XX	2,200,000	2.4	8/5/XX	8-5-XX	1,850,000	-	275,000	0	1,575,000
School Buses - 20XX	2,500,000	2.8	3/4/XX	3-4-XX	-	2,500,000	75,000	0	2,425,000
Total Contributions Due by the School Department from the General Purpose									
School Fund to the General Debt Service Fund					$ 3,015,000	$ 3,250,000	$ 805,000	$ 0	$ 5,460,000
Total Leases Payable - Governmental Activities					$ 3,457,000	$ 3,250,000	$ 950,000	$ 0	$ 5,727,000
BUSINESS TYPE ACTIVITIES									
Payable through Solid Waste Fund									
Bulldozer	$ 450,000	5.2 %	6-12-XX	12-1-XX	$ 352,000	$ -	$ 115,000	$ 0	$ 237,000
Haul-Off Truck	220,000	4.7	3-10-XX	3-10-XX	-	220,000	50,000	0	170,000
Total Leases Payable through Solid Waste Fund					$ 352,000	$ -	$ 165,000	$ 0	$ 407,000

Schedule of Expenditures of Federal Awards and State Financial Assistance

Anytown, Tennessee
Schedule of Expenditures of Federal Awards and State Financial Assistance

Federal Agency/Pass-through Agency/State Grantor Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Amount Provided to Subrecipients	Expenditures	
Federal Awards					
Direct Program:					
US Department of Agriculture:					
COVID-19 - Coronavirus Food Assistance Program (CFAP)	10.130	GR9707367	$ 75,401	$ 75,401	
Total U.S. Department of Agriculture				$ 75,401	
US Department of Treasury:					
Passed-through State Department of Finance and Administration:					
ARPA - Coronavirus State and Local Fiscal Recovery Funds	21.027	(4)		$ 525,000	
Total U.S. Department of Treasury				$ 525,000	
U.S. Department of Education:					
Passed-through State Department of Education:					
Special Education Cluster: (3)					
Special Education – Grants to States	84.027	(4)		$ 1,811,380	
Special Education – Preschool Grants	84.173	(4)		$ 94,520	
COVID 19 - Education Stabilization Fund Program - Elementary and Secondary School Emergency Relief Fund (ESSER 2.0)	84.425D	(4)		$ 1,363,923	(5)
COVID 19 - Education Stabilization Fund Program - Elementary and Secondary School Emergency Relief Fund (ESSER 3.0)	84.425D	(4)		$ 624,964	(5)
Total U.S. Department of Education				$ 3,894,787	
TOTAL FEDERAL AWARDS			$ 75,401	$ 4,495,188	
State Financial Assistance		Contract Number			
Safe Schools Act - State Department of Education	N/A	Z-06-027932-00		$ 26,853	
Law Enforcement Training Grants	N/A	Z-06-027898-00		$ 19,585	
TOTAL STATE AWARDS				$ 46,438	
Note 1 - Basis of Presentation: The schedule is presented using the modified accrual basis of accounting.					
Note 2 - Indirect Cost Rate: Anytown has elected to use the 15-percent de minimis indirect cost rate allowed under the Uniform Guidance.					
Note 3 - Special Ed Cluster Total $1,905,900					
Note 4 - Information not available					
Note 5 - Federal Assistance Listing Total $1,988,887					

***Please note that federal and state grants are not required to be combined into one schedule and may be presented in two separate schedules.

Schedule of Changes in Property Tax Receivable

Town of Anywhere
Schedule of Changes in Property Tax Receivable
June 30, 20XX

Tax Year	Property Tax Receivable Balance June 30, 2025	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	**(This column is optional)** Allowance for Uncollectibles	Net Receivable Balance June 30, 2026
2026	$ -	$ -	$100,500	$ -	$ -	$ -	$100,500
2025	-	100,000		(500)	(95,000)	(300)	4,200
2024	3,000			(20)	(1,000)	(350)	1,630
2023	2,000				(150)	(300)	1,550
2022	1,000				(325)	(250)	425
2021	800				(250)	(200)	350
2020	600				(100)	(250)	250
2019	400				(200)	(100)	100
2018	300				(90)	(100)	110
2017	200			(50)	(75)	(50)	25
2016	100				(20)	(70)	10
Totals	$8,400	$100,000	$100,500	($570)	($97,210)	($1,970)	$109,150

Note: All uncollected taxes for years prior to 202X have been turned over to the Clerk and Master for collection.

(This is an example note – please include the authorized method used by your municipality for delinquent property tax collection.)

Summary Schedule of Prior Year Findings [1, 2, 3, 4, 5, 6]

Tennessee Entity Letterhead[2]
Summary Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 20XX

Financial Statement Findings

Prior Year Finding Number[4]	Original Finding Number[4]	Title of Finding[3]	Status and Current Year Finding Number if not Corrected
2025-001	2015-001	Segregation of Duties	Not Corrected (2026-001) – See Footnote[5]
2025-002	2024-002	Cash not Deposited Timely	Partially Corrected (2026-002) - See Footnote[5]
2025-003	2025-003	Inadequate Computer Password Controls	Corrected

Federal Award Findings and Questioned Costs

Prior Year Finding Number[4]	Original Finding Number[4]	Title of Finding[3]	Status and Current Year Finding Number if not Corrected
2025-004	2025-004	Unallowable Costs Claimed for Reimbursement	Corrected
2025-005	2025-005	Noncompliance with Eligibility Requirements	Corrected

[1] If there were no prior year findings, a note should be included such as "There were no prior findings reported."
[2] Placing the auditee's summary schedule of prior audit findings on auditee letterhead is considered best practice.
[3] Audit finding titles should be clear, concise, and informative, providing an immediate understanding of the issue identified.
[4] The format for finding numbers (both current and prior year findings) should be consistent with the above format (e.g. 4 digit year dash 3 digit finding number).
[5] The schedule of prior audit findings must include the reasons for the audit finding's recurrence and planned corrective action and any partial corrective action taken. When corrective action taken is significantly different from corrective action previously reported the schedule must provide an explanation. Entities may report this requirement here in the schedule, or in the corrective action plan (CAP) with a reference to the CAP from this schedule.
[6] This is an example schedule. Different formats may be used but all elements above must be included.

APPENDIX B

CURRENT DEVELOPMENTS AND OTHER MATTERS

Other Matters

Municipal Chart of Accounts

Beginning with the audit year ending June 30, 2023, incorporated municipalities are required to convert their audited accounting information into a standard format using a Microsoft Excel tool developed by our office titled the Municipal Chart of Accounts Crosswalk (crosswalk). The crosswalk allows our office to capture uniform financial data from all incorporated Tennessee municipalities. This information is required to be submitted annually to the Comptroller's Office by each municipality's audit firm.

Section 9 of the contract to audit accounts addresses this requirement. Section 9 relates exclusively to contracts to audit of a municipality, municipality's fund(s), and municipality's school board of education. Section 9 states that the municipality's audit firm will "convert respective municipal audited financial data into a condensed chart of accounts by use of a Microsoft Excel crosswalk tool prescribed by the Comptroller of the Treasury, State of Tennessee, **or** if a respective municipality, municipality's fund(s), or municipality's school board of education chooses to convert their own audited financial data by use of the crosswalk, the auditor shall verify the accuracy of their conversion." The completed chart of accounts crosswalk in Microsoft Excel format should be submitted to the Comptroller's Office, by the audit firm through the Comptroller's Contract and Report System (CARS) when the audited financial report is submitted.

The municipal data is used in the Municipal Dashboard, Transparency and Accountability for Governments in Tennessee (TAG) This dashboard promotes transparency, comparability of financial data across municipalities, and data analysis

Resources for the crosswalk are available at Local Government Audit's Municipal Chart of Accounts Page.

Auditor's Responsibility for Cyber Security Plan

Utilities and Auditors' Responsibility for Cyber Security Plan

TCA Sections 7-51-2301 et seq. were added by 112th General Assembly, Public Chapter 1111, effective June 1, 2022. This law amends sections of TCA to require certain utilities to prepare and implement a cyber security plan to provide for the protection of the utility's facilities from unauthorized use, alteration, ransom, or destruction of electronic data. This amendment requires the Comptroller of the Treasury to:

- Verify that a governmental utility has implemented a cyber security plan in accordance with this amendment;
- Enforce the provisions of this amendment;
- Submit a report to the legislature and the department of safety regarding compliance with this amendment; and
- When applicable, report a noncompliant utility to the applicable regulatory board for consideration of sanctions, or, if no such board applies, impose sanctions directly.

To comply with the statutory requirements, utilities subject to Public Chapter 1111 should prepare and implement a cyber security plan by July 1, 2023. Audit firms of the applicable utilities are required to verify and report utilities' compliance with the law starting with the audit year ending June 30, 2023, and annually thereafter. The comptroller's office implemented a reporting method in the Contract and Report System (CARS) for audit firms to report a utility's compliance with the law each year at the time of the submission of the utility's audit report. Our office will annually compile the information reported by utilities' audit firms to generate a report for the legislature as required by the law. A copy of the utilities' cyber security plan does **not** need to be submitted to the Comptroller's Office.

To verify compliance with the law, audit firms should evaluate cyber threats during their risk assessment, read the cyber security plan, and design the appropriate audit procedures. Auditors should use their professional judgment in determining appropriate audit procedures in relation to the specific entity they audit. We believe typical audit procedures will include (1) inquiries of appropriate management, supervisory, and staff personnel, (2) inspection of the entity's relevant documents, and (3) observation of the entity's activities and operations. Auditors will also need to verify that utilities assess and update their utility cyber security plan to address new threats every 2 years.

A utility is considered noncompliant with the law when a cyber security plan does not exist or when the utility is not assessing and updating their plan to address new threats every two years. The auditor should include a finding in the report on internal control and compliance for any non-compliance with the law.

Helpful Resources for Cyber Security Plan Implementation for Utilities

United States Environmental Protection Agency

America's Cyber Defense Agency

Federal Communications Commission Cyberplanner

Local Government Audit's COT Cyber Aware Page

Local Government Cybersecurity Helpful Tools & Resources

AWWA Cybersecurity Risk Management Tool

Water and Sewer System Security

Cybersecurity Awareness Training Certificate

Alternative Compliance Examination Engagement

The 2024, and 2025 Compliance Supplements for the State and Local Fiscal Recovery Funds (SLFRF) have identified a new option for performing federal program audit procedures. The option involves an Alternative Compliance Examination Engagement (Examination).

The Examination is an alternative to a full Single Audit and is intended to be less burdensome for entities and auditors.

To be eligible for the Alternative Compliance Examination Engagement, SLFRF entities that expend $750,000 or more in Federal Awards during the entity's fiscal year ($1,000,000 for fiscal years beginning on or after October 1, 2024) must also meet the following criteria:

a) The recipient's total SLFRF award received directly from Treasury or received (through the State of Tennessee) as a non-entitlement unit of local government is at or below $10 million; and

b) Other Federal award funds the recipient expended (not including their SLFRF award funds) are less than $750,000 ($1,000,000 for fiscal years beginning on or after October 1, 2024) during the recipient's fiscal year.

Additional Guidance for the Alternative Compliance Examination Engagement:

a) For federal program compliance purposes, a financial statement audit is not required (refer to Important Note below).
b) A formal Schedule of Expenditures of Federal Awards (SEFA) is not required.
c) Internal Control requirements of the Uniform Guidance at 200.514(c) are not relevant, although AT-C 315, paragraph .15 still requires an understanding of relevant portions of internal controls over compliance.
d) Only two compliance requirements need to be tested (see Compliance Matrix on page 4-21.027-15) –
   1) Activities allowed or unallowed, and
   2) Allowable costs/cost principles
e) An Examination Opinion must be issued.

f) The Examination Engagement is conducted in accordance with AT-C 315 and Government Auditing Standards.
g) A Schedule of Findings and Responses is required. The Schedule must include findings required to be reported under GAGAS and utilize the related finding elements required by GAGAS.
h) Submission deadlines are the same as for the normal Single Audit.
i) The Examination Report will be filed with the Federal Audit Clearinghouse although all the particulars of this filing have not been determined by the Clearinghouse as of the date of this memo. Auditors will need to closely monitor their usual sources for updates on filing.

IMPORTANT NOTE:

Even though the "Compliance Supplement" does not require a financial statement audit when utilizing the Alternative Compliance Examination Engagement, "STATE STATUTES" do require an annual financial statement audit for all local governments and this statutory audit cannot be omitted. Normal contracting and filing requirements are required for the annual financial statement audit.

CARS Filing Guidance:

Any contract to audit accounts you currently have on file in CARS for a government that qualifies for the Alternative Compliance Examination Engagement should be amended to indicate that the Single Audit part of the audit will be performed under the Alternative Procedures. The Examination Engagement Report should be filed separately from the Annual Financial Audit Report in CARS.

If you have additional questions about filing, please contact Jean Suh at Jean.Suh@cot.tn.gov or 615.401.7919.

Lease Information Summary Sheet

State legislators passed the Uniformity in Local Government Lease Financing Act of 2021 (the "Act") which is codified at Tennessee Code Annotated §§ 9-24-101 et seq. Pursuant to the Act, prior to the adoption of any action authorizing the issuance of lease financing, local governments shall submit a request to the Comptroller of the Treasury for approval for leases entered into on and after January 1, 2022. Please find the lease information summary sheet on the "Leases" tab at Local Government Finance's Debt Guidance Page.

Annual CMFO Reporting Requirement for Municipalities

Municipalities are required to complete an annual CMFO reporting form in the Contract and Reporting System (CARS) annually. A notification will be emailed to municipalities once the submission is reviewed or if the reporting was not completed. The 2025 information should be reported at this time, as well as any other years that have not been filed. Municipalities should complete the annual reporting as soon as possible after the end of each calendar year.

Comptroller's Guidelines for Evaluating Peer Review and Audit Documentation Review:

Comptroller's Guidelines

Public Works Funds- Transfers and Employee Benefit Contributions:

Sections 7-34-115, Tennessee Code Annotated, requires all public works to remain self-supporting. Therefore, transfers should not be made from any other fund to public works to subsidize their operations unless it is a one-time transfer of lawfully available funds to pay a non-operating expense that has been pre-approved by the Division of Local Government Finance.

Likewise, employee benefit contributions (e.g., pension and other postemployment benefits) for public works' employees should be made by the public works rather than another fund of the local government. All associated assets, deferrals, and liabilities should also be reported by the public works.

Additional Reporting Requirements of the Comptroller's Office:

All Stand-Alone Departmental, Individual Fund(s) Financial Statements Should Follow GAAP

- GASB has not established GAAP for the reporting of stand-alone financial statements for governments' departments, individual funds, or agencies. The AICPA Audit and Accounting Guide*, State and Local Governments* (AAGSLG) provides guidance to auditors who present stand-alone financial statements for the government's departments, individual funds, agencies, or programs. (Paragraphs 17.96 through 17.100). The footnotes to these paragraphs state that GASB did not clear this guidance.
- The guidance in the AAGSLG is that practitioners should apply all relevant GAAP when presenting stand-alone financial statements for the government's departments, individual funds, agencies or programs.
- Although GASB did not clear the AAGSLG guidance, it is the Division of Local Government Audit's judgment that relevant GAAP should be followed in all stand-alone departmental, individual fund, agency or program financial statements.

School Related Items

School Support Organizations (SSO):

The Division of Local Government Audit (LGA) has prepared the "*Model Financial Policy for School Support Organizations*." It provides minimum required accounting policies and internal controls to assist SSO members and officers in improving accountability over SSO funds. As such, SSOs must follow the required accounting policies and the required internal control procedures listed in the manual which can be found on LGA's Manuals Page.

We continue to evaluate the numerous questions that are being presented to us regarding the operations of school support organizations. Many of those questions require the collaborative effort of several offices to determine what action needs to be taken. We encourage everyone to continue directing school support organization questions to the comptroller's office.

All Tennessee Charter Schools:

Section 49-13-127, Tennessee Code Annotated, requires an annual audit of all books and records, including internal school activity and cafeteria funds of charter schools.

A uniform contract to audit accounts should be executed separately and a separate report should be issued for charter schools, and the charter schools' internal school funds. In order to execute a separate contract and to submit a separate report for the charter schools' internal school funds, a new account should be created in CARS for the charter schools' internal school funds. For reporting and auditing requirements of the charter schools' internal school funds, please see ***Section G*** of this Manual.

Audit Committees

Local governments are encouraged to consider establishing an audit committee. The annual audit report should list the committee members with the roster of officials.

The comptroller may require that an audit committee be established in any local government in this state that:

> (1) Is in noncompliance with the accounting and financial reporting standards required by the GASB; or
>
> (2) Has a recurring finding from the annual audit for three (3) or more consecutive years as determined by the comptroller to be a material weakness in internal control or material noncompliance under government auditing standards.

All meetings of an audit committee created pursuant to Section 9-3-405, TCA shall adhere to all of the notice requirements and administrative requirements contained in that statute. The Audit Committee Guidelines are available here.

Internal Audit Staffs / Audit Firms and the Use of Internal Audit Staffs

Sections 4-3-304 and 9-3-211, Tennessee Code Annotated (TCA), address internal audit staffs. The Comptroller of the Treasury is authorized to establish minimum standards for audits performed by internal audit staffs of local governments, special taxing districts, utility districts, political subdivisions, state departments, boards, commissions, institutions, agencies, authorities, and other entities of the State of Tennessee. TCA states that these standards shall include the internal auditing standards published by the Institute of Internal Auditors or such other standards as may be approved by the Comptroller.

All audit reports issued by an internal audit staff must include a statement that the audit was conducted in accordance with Global Internal Audit Standards issued by the Institute of Internal Auditors or G*overnment Auditing Standards.* Internal audit departments should ensure that audit planning, fieldwork, documentation, supervision, reporting, and follow-up procedures are sufficient to support that statement. If other standards are used, they must be approved by the Comptroller of the Treasury.

Working papers created, obtained, or compiled by internal audit staff are confidential and are not open records under Tennessee's public records laws. Working papers include, but are not limited to, auditee records, intra-agency and interagency communications, draft reports, schedules, notes, memoranda, and other records relating to an audit or investigation by internal audit staff.

Internal audit departments should maintain written policies and procedures addressing objectivity, competence, audit planning, engagement documentation, quality assurance, report issuance, retention of working papers, confidentiality, coordination with external auditors or the Comptroller's Office, as applicable, and other relevant issues.

When an external audit firm uses the work of an audit client's internal audit staff, the firm should ensure compliance with AU-C Section 610, *Using the Work of Internal Auditors (*AICPA *Professional Standards)*. AU-C 610 addresses: (1) using the work of the internal audit function as audit evidence, and (2) using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor. This section also identifies situations in which it is not appropriate for the external auditor to use the work of the internal audit function. Audit documentation should include all documentation required by AU-C 610, including evidence supporting its determination that the use of the internal audit function's work, or the use of internal auditors to provide direct assistance, is appropriate.

Regulated Industry Accounting

An entity that applies the provisions of the *Codification of Governmental Accounting and Financial Reporting Standards*, Section Re10.105, and capitalizes an incurred cost that would otherwise be charged to expense (e.g., bond issue costs, interest, etc.) must comply with all of the requirements related to being a regulated industry. When auditing an entity who is applying those guidelines, if they have not met all of the requirements, it is quite possible that the financial statements will be materially misstated and if the entity will not revise its reporting, a modification to the opinion would be required. Please note that unless there is a clear and unambiguous reason why a regulatory basis of accounting should be adopted, as in the instance of electric systems, the comptroller's office **does not recommend implementing those provisions.**

Pensions

Testing Census Data:

CPA firms who audit local government employers with TCRS agent multiple-employer plans will be involved in testing census data for **Active** TCRS employees. This will involve a test for accuracy and a test for completeness.

TCRS Cost Sharing Plans (Local Education Agency – Teacher Plans) will require similar testing of census data. However, **testing of census data will be completed on a rotational basis** taking into consideration the size of the proportionate contributions of the cost sharing entities as recommended by State and Local Government Expert Panel Whitepaper for *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*. Annual testing will not be necessary for **all** cost-sharing entities. **Each year, CPA firms will be notified of those entities that will require testing.**

Single Employer Plans Administered by Local Governments:

A number of single employer plans for various local governments have been identified that have never been audited. In many cases both the local government and the auditor believed that a private sector company was the administrator. However, when the plan documents were reviewed, the private sector company was managing/administering the plan as an agent of the local government and the local government was identified as the administrator. When the administrator is a Tennessee local government, the plan is subject to the audit oversight of Local Government Audit.

In some cases, the pension plan was listed as subject to the federal Employee Retirement Income Security Act (ERISA) or the plan financial statements were prepared in accordance with the FASB's *Accounting Standards Codification*. Local government pension plans are not subject to ERISA and should use the reporting standards established by GASB.

If a local government has a non-TCRS pension plan, both the local government and the auditor should review the plan documents to determine if the plan is subject to the audit oversight of Local Government Audit.

Statutory Pension Funding Requirements:

Section 9-3-504, Tennessee Code Annotated, requires political subdivisions to develop a funding plan for any defined benefit pension plan that it maintains, directly or indirectly, and irrespective of the manner in which the pension plan is administered. The funding plan must be developed for fiscal years beginning after June 15, 2015, and must be submitted to the Division of State Government Finance within the comptroller's office within thirty (30) days after adoption. Amendments to the plan should be filed in the same manner.

Other Post Employment Benefits

Actuarial reports, related journal entries, footnotes, and RSI for Tennessee Local Governments and Local Education Agencies OPEB plans administered by the State of Tennessee are provided by the actuary directly to participating employers. Contact information for updating employer contact information or for plan related questions is located on the Department of Finance & Administration's website. For OPEB Census DATA please contact Tammy.Steele@cot.tn.gov

New Legislation of Interest for all Local and Special Purpose Governments:

Effective 5/22/2026, Public Chapter 1083, as introduced, requires the executive head of each state department or agency, local government, and public institution of higher education to submit an annual attestation to the comptroller of the treasury that such entity has not implemented a discriminatory preference to increase diversity, equity, or inclusion.

Effective 5/19/2026 for Section 5 and July 1, 2026 for All Other Sections, Public Chapter 1012, as introduced, allows certain schools to be exempt from conducting separate audits of certain school funds; establishes that if a local education agency fails to submit a financial report before December 1 of the following fiscal year, then the per pupil funding allocated to the public charter school shall not decrease; changes the enrollment lottery process for public charter schools; changes the requirements for public charter school replication applications; makes various other changes.

Effective 7/1/2026, Public Chapter 952, as introduced, makes various changes to laws regarding utilities, including the procedure for consolidation of utilities and continuing education requirements for members of utility governing bodies.

Effective 4/27/2026, Public Chapter 863, as introduced, authorizes a local government having revenues of at least $20 million in the prior fiscal year to use any project delivery method that the local government determines most effectively meets the needs of the local government for the construction of qualified local projects.

Effective 4/27/2026, Public Chapter 825, as introduced, extends from 30 to 90 days, the time following the end of a county's fiscal year within which a county must submit an annual report to the commissioner of transportation and the chairs of the house and senate transportation committees regarding mineral severance tax revenue the county deposits into its county road

fund; removes the comptroller of the treasury as a recipient of the report; subjects the report to audit by the comptroller.

Effective 4/13/2026, Public Chapter 750, as introduced, deletes the reports the comptroller is required to submit to the general assembly regarding the provision of broadband services in historically unserved areas and the Tennessee Helping Heroes Scholarship Program; revises the information the comptroller is required to submit to the general assembly regarding the property tax relief program.

Effective 7/1/2026, Public Chapter 743, as enacted, clarifies that all privilege taxes on litigation that clerks of certain courts fail to collect and pay to the department of revenue are debts of the clerks; adds certain reporting requirements.

Effective 4/14/2026, Public Chapter 699, as enacted, adds the governing body of a local education agency and certain other local governing bodies of a public body with the authority to make binding decisions or the ability to appropriate funds to the list of governing bodies that are required to make meeting agendas available to the public in advance of such meetings.

Effective 4/13/2026, Public Chapter 694, as enacted, makes changes to the process by which local governments may issue and sell grant anticipation notes; authorizes the comptroller to approve certain notes issued by a local government if the local government demonstrates that a natural disaster has caused economic distress.

Effective 4/6/2026, Public Chapter 610, as enacted, adds provider reimbursement information that is provided to the comptroller of the treasury to the existing list of examples of proprietary information types that are not subject to disclosure as public records.

Effective 3/18/2026, Public Chapter 599, as enacted, requires county legislative bodies to adopt local rules of procedure within 90 days of convening a newly elected county legislative body by majority vote; requires a two-thirds vote to change such rules; specifies Robert's Rules of Order as the default rules of procedure for county legislative bodies.

Effective 1/1/2027, Public Chapter 596, as enacted, prohibits an individual holding an elected office of a local government from holding another elected office in this state at the same time; grandfathers individuals holding more than one office presently until the terms expire; clarifies that such prohibition does not apply to an office in a political party's state executive committee.

Effective 3/18/2026, Public Chapter 591, as enacted, exempts disaster grants administered by TEMA from statutory requirements related to procurement, except that the state retains the right to inspect places of business and audit books and records for compliance.

Prior Legislation of Interest for all Local and Special Purpose Governments:

Effective 3/12/2025, Public Chapter 17, as enacted, broadens certain disclosure obligations of state and local governmental entities by requiring their disclosure of covenant violations and credit rating downgrades to the comptroller of the treasury or the comptroller's designee.

Effective 7/1/2025, Public Chapter 18, as enacted, specifies penalties for a municipality that fails to timely provide the comptroller of the treasury with copies of audits of the accounts and records of all departments, boards, and agencies under the municipality's jurisdiction that receive and disburse funds. All such audits must be completed and submitted to the comptroller of the treasury no later than six (6) months following the end of the municipality's fiscal year.

Effective 3/28/2025, Public Chapter 44, as enacted, authorizes a certified municipal finance officer who is contracted with a municipality to provide financial oversight on behalf of the municipality to devote fewer than 16 hours per month to such duties, if the municipality seeks and receives written approval from the comptroller of the treasury.

Effective 3/28/2025, Public Chapter 98, as enacted, authorizes a local government to execute a cooperative purchasing agreement with other local, state, and federal governmental entities for purposes of purchasing materials, labor, and services used for maintenance, operations, component replacement, or repairs of existing facilities and grounds owned or operated by a local education agency or by a local government agency.

Effective 4/3/2025, Public Chapter 132, as enacted, authorizes certain county legislative bodies, by a two-thirds vote, to remove any member of an appointed board or commission, if such removal is recommended by the appointing authority and the member of the board or commission is given at least five business days' notice of the meeting when the vote on removal will occur.

Effective 7/1/2026, Public Chapter 140, as enacted, requires each department, agency, or official of a local government who assesses and collects a fee of more than $250 to document the justification and cost basis of the fee; makes such documentation a public record; subjects such documentation to an annual audit by the comptroller of the treasury.

Effective 4/11/2025, Public Chapter 155, as enacted, removes a requirement that audits and working papers prepared by independent public accountants for annual reports by a governing board operating under the Human Resource Agency Act of 1973 be reviewed by the comptroller of the treasury prior to payment by the human resource agency.

Effective 4/11/2025, Public Chapter 166, as introduced, creates a process by which a utility district commissioner who becomes ineligible to serve for failing to meet training and continuing education requirements may be reinstated; reduces the number of hours of training and continuing education for utility district commissioners from 12 hours to six hours.

Effective 7/1/2025, Public Chapter 170, as enacted, authorizes certain utility systems to borrow money in anticipation of revenue collections and to issue negotiable notes to evidence such

borrowing to provide emergency cash flow for such systems, with oversight of such actions by the comptroller of the treasury; establishes deadline for the payment of such notes.

Effective 7/1/2025, Public Chapter 218, as enacted, redefines "local government" to include a water, wastewater, or energy authority for purposes of the present law applicable to bonds and notes issued by local governments; makes other related revisions.

Effective upon becoming law, Public Chapter 369, as introduced, requires the clerk of every court having jurisdiction of criminal offenses to include a $12.50 charge in every cost bill, to be remitted to the county government to provide support services for the purpose of promoting public safety at the sole discretion of the district attorney general; takes effect upon two-thirds vote of the county legislative body; requires a district attorney general receiving funding to submit an annual report.

Effective upon becoming law, Public Chapter 372, as introduced, extends the period, from three years to four years, that a taxpayer of the tourist accommodation tax to a metropolitan government is required to keep the records used to determine the amount of the tax. Not later than 90 days after the end of a municipality's fiscal year, each municipality that levies such tax must provide an annual written report to the commissioner of the department of tourist development. The annual written report must detail the amount of revenue spent by the municipality, and its subordinate contractors, and how those expenditures have been designated and used for tourism promotion and tourism development.

Effective upon becoming law, Public Chapter 458, Human Rights **-** as enacted, enacts the "Dismantling DEI Departments Act." - Amends TCA Title 4; Title 5; Title 6; Title 7; Title 8 and Title 49, Chapter 7. This bill enacts the "Dismantling DEI Departments Act," which prohibits the following entities from maintaining or authorizing an office or department that promotes or requires discriminatory preferences in an effort to increase diversity, equity, or inclusion:

- A department, agency, or other unit of state government;
- A county government;
- A municipal government;
- A metropolitan government;
- A public institution of higher education in this state.

This bill provides that all mandates, policies, programs, activities, guidance, regulations, enforcement actions, consent orders, or other declarations by such an office or department are void.

Closing the Books:

Section 9-2-102, Tennessee Code Annotated, was amended to require all local governments to close their official accounting records and to have those records available for audit no later than two (2) months after the close of their fiscal year end. The requirement was effective on July 1, 2015. Auditors should report a finding for local governments that do not comply with this law. Guidance regarding closing the books can be found in ***Appendix D***

Internal Control:

Section 9-18-102(a), Tennessee Code Annotated, was amended to require all local governments to establish and maintain internal controls that would provide reasonable assurance that (1)obligations and costs are in compliance with applicable laws, (2)funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations and (3)revenues and expenditures are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

For Tennessee local governments, the principles of the Green Book have been incorporated into the *Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee.* An updated version of the manual was issued in March 2026. The internal control requirement was effective June 30, 2016. All local governments should currently have their internal control policies and procedures developed, in writing, and in place. Auditors should develop a finding for local governments that have not developed and documented their internal control policies and procedures.

Current Developments

Summary of Changes in Auditing and Reporting Requirements

1. **GASB Statement No. 105, Subsequent Events,** For fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

2. **GASB Statement No. 104, Disclosure of Certain Capital Assets,** Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

3. **GASB Statement No. 103, Financial Reporting Model Improvements**, Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. If a primary government chooses early implementation of this Statement, all component units also should implement this Statement in the same year, subject to the provisions of paragraph 59 of Statement 14.

4. **GASB Statement No. 102, Certain Risk Disclosures**, Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

5. **GASB Statement No. 101, Compensated Absences**, Effective Date: The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.
6. **GASB Statement No. 100, Accounting Changes and Error Corrections**—an amendment of GASB Statement No. 62, Effective Date: For fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

2024 Yellow Book:

The 2024 revision of Government Auditing Standards supersedes the 2018 Revision Technical Update April 2021 (GAO-21-368G, April 2021). The 2024 revision of Government Auditing Standards is effective for financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025, and for performance audits beginning on or after December 15, 2025. A system of quality management that complies with Government Auditing Standards is required to be designed and implemented by December 15, 2025. An audit organization should complete its evaluation of the system of quality management by December 15, 2026. Early implementation is permitted.

2025 Green Book:

Standards for Internal Control in the Federal Government—a.k.a., the "Green Book"—sets the standards for an effective internal control system for federal agencies. The revised 2025 Green Book is effective starting fiscal year 2026. Early implementation is allowed.

APPENDIX C

AUDIT PROCEDURES

1. Centralized Cafeteria Procedures

Procedures for Centralized Cafeteria Systems

The Division of Local Government Audit has established certain additional audit procedures for centralized cafeteria systems of county school systems that are audited by the Division of Local Government Audit. These additional procedures must be performed by certified public accountants who have contracted to audit the internal school funds of an applicable county school system. These additional procedures include many procedures that must be performed while school is in session to ensure compliance with federal and state regulations. Therefore, the audits should be contracted early enough to allow adequate time for planning and performing the additional cafeteria procedures.

A separate report on these procedures is not required; however, an auditor from the Division of Local Government Audit will review the supporting audit documentation for these procedures to determine that sufficient work was performed and adequately documented. The supporting audit documentation should be completed and available for review by the audit staff of the Division of Local Government Audit no later than September 30 of each year unless prior arrangements are made with the Division of Local Government Audit. The Division of Local Government Audit is the principal auditor for centralized cafeteria systems and will rely on the work performed by the certified public accountant at the individual schools as a basis for its opinion.

The additional procedures are to be performed at the schools selected for physical observation in procedure No. 1 below. However, if the certified public accountant becomes aware that the scope should be expanded to include all schools in the system, the auditor should immediately contact the Division of Local Government Audit. The following are audit procedures for centralized cafeteria systems:

1. Prior to the end of the school year, physically observe (on a sample basis of schools) meal counts, cash collections, and internal controls during the year under audit. At least 25 percent of the total schools in the system must be included in this sample on a yearly rotation basis. At the same time the internal control questionnaire is filled out, prepare a short summary of daily operations as stated by the cafeteria manager. Compare the cafeteria manager's responses with your observations and review of internal controls. Prepare a list of all internal control weaknesses noted and recommendations for improvement.

2. Determine that "collection procedures" submitted annually to the Tennessee Department of Education are implemented properly. Auditors should determine that an actual meal count for reimbursable meals is taken at the point of service. Determine that reimbursable meal counts are accurate and that supplemental sales (a la carte) are not included in the reimbursable meal counts. Verify that the procedures established are in effect.

3. If the individual school maintains a bank account for cafeteria funds, perform standard bank account reconciliation procedures and confirm balances as of June 30 by written communication or other available documentation.

4. If a bank account is maintained, determine that all checks are made payable to the central office. Note any exceptions.

5. On a sample basis, foot and extend daily collection reports, if the reports are prepared manually. Investigate any differences noted.

6. If collections are made in the classroom, trace classroom teacher reports on a sample basis to amounts reported on daily collection reports of the cafeteria manager. Investigate any differences noted.

7. Review frequency of bank deposits and on a sample basis determine compliance with the three-day deposit requirement. Compare bank deposits with cash collections on a monthly basis. Investigate any differences noted. If deposits are made directly to an outside bank account, such as the county trustee's account, it will be necessary to trace to those records.

8. For the whole year, prepare a schedule of receipts by source from collection reports. Trace cash collections per these schedules to cash receipt records of the centralized cafeteria fund. Investigate any differences noted.

9. Review collection reports for the manner of recording number of children served by meal (lunch, breakfast, and snack) according to eligibility (free, reduced, full pay) to determine if these numbers are used in the report that is consolidated at the central office level and then submitted to the state as part of the monthly Claim for Reimbursement.

10. Check the approved applications to ensure that there are a sufficient number on hand to support the reported free and reduced-price meals served. (Note: Applications may contain the name of more than one child.)
    Note: Step 10 will not apply if the cafeteria participates in the Community Eligibility Provision (CEP).

11. The cafeteria system is required by USDA to verify a percentage of free and reduced-price applications. Review the procedures used by the system and determine that the system maintains the records required to document its verification procedure as follows:

    a. Summary of verification efforts (to include total number of applications on file October 1 and the percentage or number of applications verified)

b. Copies of all correspondence with the household selected

c. Documentation or proof of benefit eligibility

d. Report of verification results on each household selected for verification

Note: Step 11 will not apply if the cafeteria participates in the Community Eligibility Provision (CEP).

12. For the whole fiscal year, prepare a schedule of the number of meals sold to children and adults as reported on daily collection reports and reconcile potential cash collections from such sales to receipts as determined from procedure No. 8. Investigate any differences noted. Discuss with the director of schools and state auditors any unusual variances detected as a result of the procedure.

13. Observe and test compliance with the USDA minimum meal pattern requirements for food components. Review menu and production records to determine that required components and food items were planned and offered. Document any noncompliance noted.

14. Document food supply inventory management procedures and test procedures in place to properly account for and safeguard food receipts, usage, and inventory. Document any deficiencies with inventory management and control practices.

2. Other School Systems Cafeteria Procedures

Auditors should develop an individualized audit program to meet the audit objectives for other school system's centralized cafeteria operations. The procedures required for centralized county school systems should be considered when developing the audit program.

APPENDIX D

LAWS, REGULATIONS, AND ATTORNEY GENERAL OPINIONS

1. Selected State Laws Affecting Counties

Counties must comply with federal, state, local laws and regulations, grant requirements, and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both qualitative and quantitative aspects must be considered. No one source summarizes all applicable laws and regulations. The following list of references should only be used as a guideline in determining which state laws affect a county and should not be considered a comprehensive list. These references represent areas in which recurring questions have arisen and do not necessarily represent the most significant laws.

Selected Tennessee Code Annotated references for Counties

Audits and Other Regulatory Reporting to Local Government Audit

Sections 4-3-301 – 304	General audit requirement
Section 4-3-305	Issuance of Guidance Manuals
Section 4-30-101	Local Government Electronic Technology Act of 2009
Sections 5-8-505 & 67-5-1902	County officials are to file an annual financial report. Fiscal year end requirement of June 30
Section 8-4-109	Audits of governmental entities, Comptroller authorized
Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 9-3-206	Comptroller to have access to all books and records
Section 9-3-211	Annual audits required
Section 9-3-401 et. seq.	Local Government Modernization Act of 2005/Audit Committees
Sections 10-7-503(d) and 29-20-401(g)(1)	Insurance Pool Audits
Sections 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see ***Section K*** of this manual for additional information)
Section 47-10-119	Electronic Transactions Pre-Implementation Statement and Post-Implementation Review
Section 9-3-407	Requires a local government receiving annual audit findings to file a corrective action plan with the Comptroller of the Treasury

Criminal Statutes

Section 18-2-105	Clerks of court - embezzlement
Section 39-14-103	Theft of property
Section 39-14-130	Destruction of valuable papers with intent to defraud
Section 39-16-401	Definitions of public misconduct
Section 39-16-402	Official misconduct
Section 39-16-403	Official oppression
Section 39-16-407	Misrepresenting information to state auditors
Section 39-16-501	Definitions for interference with government operations
Section 39-16-504	Destruction of and tampering with governmental records
Sections 40-15-105(a) and 40-35-313(a)	Public officials, appointed officials and public employees ineligible for pretrial diversion or probation for criminal offenses committed in their official capacity or that involve the duties of their office.

Books and Records

Section 5-8-501	Uniform Accounting System, including Chart of Accounts
Section 9-2-102	Books closed within two (2) months after fiscal year end
Section 9-2-138	Administrative officers are required to reconcile the fund accounts with the trustee's cash balance
Section 9-18-102(a)	Government to establish internal controls
Section 10-7-504	Confidential records

Budgeting and Purchasing

Section 5-8-107	Revenues to be appropriated for expenditure by County Commission
Section 5-8-507	Publication of annual operating budget
Section 5-9-109	Contributions to nonprofit charitable organizations
Section 5-9-401	The County Commission must appropriate all funds
Section 5-9-402	Budget adoption timeline
Section 5-9-404	Continuation Budgets, automatic approval of school budget if County Commission and School Board cannot agree
Section 5-9-407	Budget amendments
Section 5-12-101	Fiscal Control Act of 1957 – Budgeting
Section 5-14-101	Fiscal Control Act of 1957 – Purchasing
Section 5-14-201	Purchasing Law of 1983
Section 5-16-105	Purchasing – Urban type public facilities
Section 5-21-101	Financial Management System of 1981

Budgeting and Purchasing (continued)

Section 9-21-403	Local Government Budget Modernization
Section 12-2-421	Purchasing at public auctions
Section 12-2-501	Negotiated sale of surplus property
Section 12-3-1212	Entities with central purchasing system can increase their bid limit to $50,000
Section 12-3-1201	Purchasing under state contracts
Section 12-3-1202	Purchasing used/second-hand goods from private individuals
Section 12-3-1203	Purchasing through another local government's contract
Section 12-3-1205	Out-of-state and regional purchasing cooperatives; cooperative purchasing agreements with federal agencies
Section 12-3-1208	Competitive Reverse Auction Process
Section 12-3-1209	Contracts with professional persons
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-107	Contracts for professional services
Section 49-2-203	General School Law
Section 54-7-113	Uniform Road Law
Section 62-2-107	Architect needed for construction projects exceeding $50,000

Electronic Commerce

Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 5-21-116(c)	Approval of mechanical check signing machine (applies only to the Financial Management System Act of 1981)
Section 5-21-130	Sale of surplus, unusable or obsolete equipment on an internet site (applies only to the Financial Management System Act of 1981)
Section 9-1-108	Acceptance of credit cards
Section 10-7-123	Electronic access to county information
Section 62-6-119	Electronic bid documents

Bonds/Insurance

Section 4-4-108	Blanket Surety Bond Required
Section 5-6-109	Bond of County Executive
Section 8-8-103	Sheriff insured under blanket coverage insurance.
Section 8-11-103	Bond of Trustee
Section 8-13-103	Bond of Register
Section 8-19-101	Can either obtain surety bond or insurance
Section 8-19-102	Bonds/insurance to be filed with County Clerk

Bonds/Insurance (continued)

Section 8-19-103	Bonds/insurance to be recorded in the Register's Office
Section 8-19-106	County to pay the premiums on the official's bonds/insurance
Section 54-4-103	Bond of Highway Administrator
Section 67-1-505	Bond of Assessor of Property

County Commission

Section 5-1-104	Vacancies on the County Commission must be filled within 120 days
Section 5-5-102	County employee may serve on County Commission
Section 5-5-107	Compensation of County Commission
Section 49-2-101	Powers and duties of County Commission concerning School Department
Section 5-5-112	Conflict of interest of County Commission member

County Monies

Sections 5-8-201 & 9-1-107	Escrow coverage
Section 5-8-207	Three-day deposit law. Requires every constitutional officer handling public funds to maintain an official bank account. Also requires that all funds be disbursed by prenumbered check.
Section 5-8-210	Checking System
Sections 5-8-301 & 9-4-107	Investment of idle funds
Section 9-1-109	Penalty for worthless checks/money orders
Section 9-2-103	Official receipts required
Section 9-2-104	Official receipts to be prenumbered

County Officials

Section 8-20-101	Hiring of deputies – letter of agreement or salary decree required
Section 8-21-401	Authorized fees – Circuit and General Sessions
Section 8-21-601	Authorized fees – Clerk and Master
Section 8-21-701	Authorized fees – County Clerk
Section 8-21-801	Special Commissioners
Section 8-21-901	Authorized fees – Sheriff
Section 8-21-1001	Authorized fees – Register
Section 8-22-101	Clerks and county officials deprived of fees when salaries are paid by the county

County Officials (continued)

Section 8-22-103	Excess fees are property of the county
Section 8-22-104	Remittance of excess fees to county
Section 8-24-102	Compensation of county officials, except schools
Section 12-4-101	Conflict of interest statute
Section 16-15-5003	Salary of the General Sessions Judge
Section 66-29-101	Unclaimed funds
Section 67-1-403(e)	County Mayor to require training for members of county board of equalization. Resolution to be adopted by county legislative body detailing hours, content, recordkeeping, etc.
Section 67-5-1411(b)	Required content of county board of equalization notices of final decision

Clerks of Courts (also see County Officials)

Section 8-21-801	Special commissioner fees
Section 18-2-101	Receipts and disbursements to be posted to dockets
Section 18-2-103	Docket trial balance
Section 18-4-103	Circuit Court Clerk's duty to file for court costs in state cases and file case disposition of criminal cases with TBI
Section 18-4-203	General Sessions Clerk required to file criminal case dispositions with TBI
Section 18-6-108	Probate of instruments
Section 20-12-141	Payments to clerks – costs
Section 40-24-105	Lump sum partial payment in full settlement of case balance
Section 40-25-123(c)	General sessions or criminal court judge permitted to suspend court costs and litigation tax for indigent defendant
Section 55-10-207	Electronic citation fees – special revenue fund

Debt

Section 7-51-904	County Commission approval required for all leases and installment purchase contract requirements
Section 9-21 et seq.	Debt – bonds, notes, loans
Section 9-24-101	Local Government Lease Financing Act of 2021
Section 9-21-133	Approval of Comptroller's Office required for issuance of balloon indebtedness
Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the Comptroller of the Treasury

Highway Departments

Section 54-7-101 et seq.	Uniform road law
Section 54-7-107	Chief administrative officer to name interim successor
Section 54-7-112	Annual listing of highway equipment inventory to be filed with County Mayor and County Commission by September. Also requires equipment to be plainly marked and numbered.
Section 54-7-113	Highway purchasing law
Section 54-7-202	Use of county owned equipment, tools, and materials for private purposes prohibited
Section 54-7-203	Personal financial interests prohibited
Section 54-10-103	Designation of county roads. Requires an annual listing of county roads to be approved by the County Commission at their January meeting.

Sheriff and Drug Control Funds

Section 8-4-115	Fingerprint law requirements
Section 18-1-206	Disposal of physical evidence
Section 39-11-713	Disposal of forfeited property
Section 39-16-609	Failure to appear
Section 39-17-420	Drug control fines and forfeitures, allowed uses of drug funds, Comptroller's guidelines must be followed for confidential expenditures, fingerprinting equipment.
Section 39-17-428	Mandatory minimum fines – allocation of proceeds
Section 39-17-505	Possession of gambling device or record – forfeiture
Section 39-17-1317	Confiscation and disposal of confiscated weapons
Section 40-7-122	Jail booking fee
Section 41-2-129	Work release program requirements
Section 41-12-101	Regional Jail Authority Act
Section 53-11-201	Procedure in confiscation, sale of seized property
Section 53-11-415	Special revenue fund required for drug fund
Section 57-9-202	Procedures for seizing contraband

Taxes

Section 67-1-801	Interest and penalty on delinquent taxes
Section 67-4-101	Privileges taxable
Section 67-4-602	Litigation tax
Section 67-4-719	Business tax collections - county clerk should issue distress warrants for delinquent business taxes
Section 67-5-510	Setting of property tax rate
Section 67-5-701	Tax Relief
Section 67-5-705	Property tax freeze act

Taxes (continued)

Section 67-5-1801	Trustee shall not accept current taxes when delinquent taxes are due except in bankruptcy or dispute. Trustees may accept partial payments of property taxes if they have an approved plan.
Section 67-5-1801(c)(2), (3)	Bank shall provide evidence of taxes deposited to trustee at least every three days and trustee to verify correct amount of deposits and interest.
Section 67-5-1804	Discount for early payment of property taxes
Section 67-5-1805	Payment of taxes by part owner
Section 67-5-1806	County barred from collecting delinquent property taxes after 10 years
Section 67-5-2003	Requires the delivery of delinquent taxes to Chancery or Circuit Court. List must be delivered to the delinquent tax attorney between February 1 and April 1.
Section 67-5-2010	Interest and penalty on property taxes
Section 67-5-2403	Clerk must provide the trustee with a listing of delinquent taxpayers between June 1 and July 1
Section 67-6-712	At least 50 percent of the local option sales tax must be used for school purposes
Section 67-7-110(b)	Distribution of coal severance tax – 50% to schools and 50% to highways
Section 67-7-201	Mineral severance tax – to highways

Trustee

Section 8-11-104	Duties of trustee
Section 8-11-110	Trustee's commission – general
Section 8-11-112	Confidential information
Section 49-3-358	Trustee's commission on state education funds
Section 49-3-315	ADA adjustments by trustee
Section 67-5-1808	Trustee may accept prepayments and partial payments of property taxes

School Departments

Section 49-2-110	School activity funds
Section 49-2-112	School audits
Section 49-2-113	Approval of use of mechanical check-signing equipment. Requires filing of remote access statement
Section 49-2-203	Board of Education – duties
Section 49-2-301	Director of Schools
Section 49-2-601et seq	School support organizations (PTOs, booster clubs, etc.)

School Departments (continued)

Section Title 49-2-134 Assembly)	Fund raising for noneducational purposes (Teacher morale accounts).
Section 49-3- et seq	School debt issues
Section 49-3-314	Disposition of state funds/maintenance of effort
Section 49-3-1003	ADA split of school debt proceeds
Section 49-3-1005	No ADA split required if debt repaid from outside tax rate
Section 49-5-408	Teachers required to have a contract
Section 49-6-815	School Resource Officers
Section 49-6-2003	Teacher conflicts of interest
Section 49-6-2007	Sale of surplus school property
Section 49-6-2007	Donation of Surplus Computers to Low Income Families
Section 49-6-2109	Advertising on School Buses
Section 49-13-101 et seq	Charter Schools
Section 57-4-306	Mixed drink tax allocation from municipality

Other

Section 8-44-101	Sunshine Law – Policy
Section 9-3-505	Requirement to fully fund pension plans
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized.
Section 10-7-503	Records open to public inspection
Section 68-211-874	Landfills and incinerator operations must be accounted for in an enterprise fund. Other solid waste activities must be accounted for in either an enterprise fund or a special revenue fund, unless specifically prohibited by GAAP. Where GAAP prohibits use of a special revenue or enterprise fund, the solid waste activities shall be accounted for as a department of the general fund.
Section 7-82-703	Financially Distressed Utilities
Section 7-82-707(d)	Water Loss Report

2. County Donations to Nonprofit Organizations

Section 5-9-109, Tennessee Code Annotated, authorizes a county's governing body to appropriate funds for the financial aid of any nonprofit charitable organization, any chamber of commerce, exempt from taxation pursuant to the Internal Revenue Code of 1954, Section 501 (c) (6), as amended, or any nonprofit civic organization under guidelines required by subsection (b) of this statute. The auditor should consider the following items when determining whether a county has complied with this law.

1. A county may appropriate funds for only those nonprofit charitable organizations that promotes the general welfare of the residents of the county, or any nonprofit civic organization classified under Section 501(c)(4) or (c)(6) of the Internal Revenue Code working for the purpose of bringing about civic betterments, and social improvement through efforts to maintain and increase employment opportunities in the county.

2. The legislative body is required at a minimum to have a separate section of the appropriating resolution of the budget document which shall include the following: (1) the name of each nonprofit organization, (2) the specific amount appropriated to that organization.

3. The county shall devise guidelines directing for what purposes the appropriated money may be spent.

4. The payments to these organizations shall not exceed the amount appropriated to each organization.

5. Each organization receiving financial assistance shall file a copy of the annual audit or in lieu of an audit report an annual report detailing all receipts and expenditures in a form prescribed by the comptroller of the treasury. The annual reporting form can be found under "General Guidance" tab at LGA's Accounting & Auditing Information Page.

6. For appropriations to nonprofit civic organizations, notices shall be published in a newspaper of general circulation in the county of the intent to make an appropriation, specifying the intended amount and purpose.

3. State Funding Board's Guidelines on Interest Rate and Forward Purchase Agreements

As directed by 9-21-130, Tennessee Code Annotated, the revised Guidelines were effective November 1, 2009.

Summary of Guidelines

- Require adoption of debt management and derivative policies
- Require financial statements with a clean audit opinion
- Require independence of advisors and counsel
- Require avoidance of conflicts of interest among third party professionals involved in the transactions
- Specify staff and required knowledge
- Impose ongoing reporting for Interest Rate and Forward Purchase Agreement transactions

Additional information regarding these Guidelines can be found on the web at State Funding Board's Policies and Guidelines.

3a. Guidelines for Closing the Books

For purposes of implementing the requirement of Section 9-2-102, Tennessee Code Annotated, "closing the books" refers to journal entries to close an accounting cycle and prepare the records for a new accounting cycle. These journal entries include, but are not limited to, entries to post amounts for year-end receivables, payables, deferred outflows, deferred inflows, capital assets, and accumulated depreciation; plus entries to rid or transfer the amounts from the temporary ledgers for revenues and expenditures/expenses to the permanent records for fund balances/net position. The term "closing the books" does not include some entries required to convert the fund accounting statements to the government-wide financial statements.

4. Selected State Laws Affecting Municipalities

Municipalities must comply with federal, state, and local laws and regulations and charter and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both quantitative and qualitative aspects must be considered. No one source summarizes all the applicable laws and regulations. The following list of references should be used only as a guideline in determining which state laws affect the municipality and should not be considered a comprehensive list of compliance features. These references do not necessarily represent the most significant laws but represent areas in which recurring questions have arisen.

Many municipalities have "Private Act" charters. The Private Acts of the State of Tennessee should be reviewed for these municipalities to assess compliance requirements.

Selected Tennessee Code Annotated References for Municipalities

Charters

Section 6-1-101	Mayor - Alderman
Section 6-18-101	City Manager - Commission
Section 6-30-101	Modified City Manager - Council

Books and Records

Section 6-56-201	Municipal budget law of 1982
Section 9-21-403	Local Government Budget Modernization
Section 8-44-104	Minutes required, open for public inspection
Section 9-2-102	Uniform accounting system
Section 9-2-102	Books closed within two (2) months after fiscal year end
Sections 9-2-103 – 104	Consecutively prenumbered receipts required
Section 9-2-106	Violation of receipt requirements is a Class C misdemeanor
Section 9-18-102(a)	Government to establish internal controls
Section 10-7-504	Confidential records
Section 39-14-130	Destruction of valuable papers with intent to defraud
Section 39-16-504	Destruction of and tampering with governmental records
Section 66-29-113	Reporting abandoned property

Audits and Other Regulatory Reporting to Local Government Audit

Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 6-54-903	Travel Policies – Filing Requirements
Section 6-56-105	Audits of municipalities
Section 6-56-105(e)	Audits must be completed and submitted to the comptroller of treasury no later than six months following the end of municipality's fiscal year. Now subject to penalty with two or more outstanding late audits.
Section 8-4-109	Audits of governmental entities, Comptroller authorized

Audits and Other Regulatory Reporting to Local Government Audit (continued)

Section 8-4-115	Audit of Standardized Booking Procedures
Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 9-3-212	Duty to order and pay for audits
Section 9-3-405	Audit Committees may be required
Section 9-3-407	Requires a local government receiving annual audit findings to file a corrective action plan with the Comptroller of the Treasury
Sections 10-7-503(d), and 29-20-401(g)(1)	Insurance Pool Audit
Sections 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see ***Section K*** of this manual for additional information)
Sections 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations
Section 54-4-204	Request to combine State Street Aid with General Fund

Taxes

Section 6-55-101	Collection and payment of tax
Section 6-55-201et seq.	Sale of real estate for delinquency and tax suit…
Section 6-55-301	Privilege tax
Section 8-21-107	Payment (receipt) of fees, fines, costs, etc. by credit card
Section 9-1-108	Collection of taxes with credit or debit card
Section 57-4-306	Mixed drink tax allocation of funds
Section 67-4-1403	Hotel Occupancy Tax
Section 67-5-2005	Delinquent municipal real property taxes – Tax sale.
Section 67-5-2404	Delivery of delinquent tax list to attorney – Appeals.

Purchasing

Section 6-54-107	Officers' interest in municipal contracts prohibited and indirect conflicts of interest
Section 6-56-301	Municipal purchasing law
Section 12-2-407	Sale of surplus property to governmental entities and not-for-profit corporations
Section 12-3-1201	Purchases for local governmental units (by department of general services)
Section 12-3-1205	Out-of-state and regional purchasing cooperatives; cooperative purchasing agreements with federal agencies

Purchasing (continued)

Section 12-3-1207	Authorization to use competitive sealed proposals
Section 12-3-1209	Contracts with professional persons
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-107	Contract for professional services
Section 39-16-105	Buying and selling in regard to offices held or elected to

Investing and Banking

Section 6-56-106	Authorized investments
Section 6-56-110	Deposits to be secured by collateral
Section 6-4-402	Procurement of banking services
Section 9-1-107	Investments–deposits exceeding insurance limits
Section 9-4-101	Collateral

Debt

Section 7-34-111(b), 9-21-105(4), & 12-10-116	Local Government Debt Law Modernization
Section 9-21-133	Approval of Comptroller's Office required for issuance of balloon indebtedness
Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the comptroller of the treasury.
Section 9-21-408	Interfund loans
Section 9-21-601	Capital outlay notes
Section 9-21-903	Refunding bond issues
Section 9-24-101	Local Government Lease Financing Act of 2021

Disbursements

Section 6-54-111	Appropriation of funds for nonprofit organizations
Section 6-54-901	Reimbursement for expenses incident to holding office
Section 6-56-111	Deposit within three working days–petty cash fund
Section 6-56-111(c)	Use of consecutively prenumbered checks
Section 6-56-112	Expenditures for lawful municipal purpose
Section 54-4-204	State street aid: Purposes for expending funds; Accounting

Deficits, Losses and Unaccounted for Water

Section 7-82-703	Financially Distressed Utilities
Section 7-82-707(d)	Water Loss Report

Landfills/Solid Waste

Section 68-211-835(g)	Solid Waste Disposal Fees
Section 68-211-874	Accounting

Municipal Utilities

Section 7-34-115	Disposition of revenue
Section 7-34-115(a)(2) through (a)(6)	Municipal natural gas utility system funding chamber of commerce and economic and community organizations.
Section 7-34-115(j) & (k)	Utility commissioner training required; comptroller to provide training no later than 3-1-2019
Section 7-35-401	Sewers and waterworks–authority granted
Section 7-39-302	Municipal gas companies
Section 7-52-101	Municipal electric plant law
Section 7-52-401	Telecommunications Services
Section 7-52-601	Cable Television, Internet and Related Services
Sections 7-34-115(a)(I), 7-39-404, 7-52-118, 7-52-304, 7-52-404, and 7-52-606	In-lieu of tax payments

Police and City Courts

Section 8-4-115	Standardized procedures for booking of arrestees
Section 18-1-105	Court Clerk – Duties
Section 18-1-206	Disposal of physical evidence
Section 39-16-609	Failure to appear
Section 39-17-420	Drug control fines and forfeitures, allowed use of drug funds, Comptroller's guidelines must be followed for confidential expenditures–fingerprinting equipment
Section 39-17-428	Mandatory minimum fines–allocation of proceeds
Section 39-17-505	Possession of gambling device or record–forfeiture
Section 39-17-1317	Confiscation and disposition of confiscated weapons
Section 39-17-1318	New serial numbers for confiscated firearms
Section 40-33-201	Application (procedures in confiscation – general)
Section 40-33-211 & 216	Asset forfeiture proceeds
Section 40-35-313	Expungement from official records
Section 53-11-201	Procedure in confiscation
Section 53-11-204	Disposition of proceeds
Section 53-11-415	Special revenue account for drug fund
Section 53-11-451	Goods subject to forfeiture –seizure–disposition
Section 55-8-198	Citations based on surveillance cameras

Police and City Courts (continued)

Section 55-10-204	Illegal cancellation of traffic citations
Section 55-10-207	Electronic citation fees – special revenue fund
Section 55-10-208	Uniform traffic citation form
Section 55-10-303	Disposition of collections
Section 55-10-306	Record of traffic cases–report of convictions to department
Section 55-10-403	Forfeiture of vehicles (DUI)
Section 55-16-101	Report of unclaimed vehicles
Section 55-50-502	Suspension of licenses
Section 55-50-503	Surrender of license

Criminal Statutes

Section 39-11-106	Definitions (criminal offenses)
Section 39-14-104	Theft of services
Section 39-16-401	Definitions for public misconduct offenses
Section 39-16-402	Official misconduct
Section 39-16-403	Official oppression
Section 39-16-407	Misrepresenting information to state auditors
Section 39-16-501	Definitions for interference with government operations offenses
Section 39-16-503	Tampering with or fabricating evidence
Section 40-39-201	Tennessee Sexual Offender and Violent Sexual Offender Registration, Verification and Tracking Act of 2004

Other

Section 4-4-108	Blanket surety bond required
Sections 6-21-104 - 105	Surety bond required – City Manager-Commissioner Charter
Section 6-35-411	Surety bond required – Modified City Manager-Council Charter
Section 6-51-121	Recording of annexation ordinance or resolution by annexing municipality
Section 6-51-203	Recording of deannexation ordinance by contracting municipality
Section 6-56-401 et seq	Municipal Finance Officer Certification and Education Act of 2007
Section 6-56-404	CPE Hours reduced for CMFOs
Section 6-56-406	Rules for Hiring or Contracting CMFO
Section 6-56-406(d)	Written approval to provide less than 16 hours oversight
Section 6-56-407	Penalty for noncompliance with Municipal Finance Officer Certification and Education Act of 2007
Section 8-44-101	Sunshine Law – Policy
Section 8-44-102	Open meetings

Other (cont.)

Section 8-44-103	Notice of public meetings
Section 9-1-109	Penalty for worthless checks/money orders
Section 9-3-504	Pension Funding Policies
Section 9-3-505	Requirement to fully fund pension plans
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized.
Section 10-7-503	Records open to public inspection
Sections 6-54-107 & 12-4-101	Conflict of interest
Section 62-2-107	Employment of licensees in public works

5. Municipal Donations to Nonprofit Organizations

Section 6-54-111, Tennessee Code Annotated, as amended, authorizes a municipality's governing body to appropriate funds for the financial aid of any nonprofit charitable organization that provides services benefiting the general welfare of the residents of the municipality or any nonprofit civic organization working to maintain and increase employment opportunities in the municipality. This section also provides for the Comptroller of the Treasury to establish standard procedures to assist the municipal governing body in the disposition of funds so appropriated. The auditor should consider whether the municipality has complied with the following laws and rules:

1. A municipality may appropriate funds for only those nonprofit charitable organizations that provide services benefiting the general welfare of the residents of the municipality, or any nonprofit civic organization classified under Sections 501(c)(4) or (6) of the Internal Revenue Code working to maintain and increase employment opportunities in the municipality.

2. Municipal payments to nonprofit organizations shall be limited to the amounts appropriated for such purposes and in keeping with the municipality's guidelines for how the appropriated funds may be spent.

3. The municipality shall require that each nonprofit organization that desires financial assistance from a municipality shall file with the city clerk of the municipality a copy of an annual report of its business affairs and transactions that includes, but is not limited to:

   Either a copy of the entity's most recently completed annual audit or an annual report detailing all receipts and expenditures in a form prescribed by the comptroller of the treasury and prepared and certified by the chief financial officer of the nonprofit organization;

   A description of the program that serves the residents of the municipality; and the proposed use of the municipal assistance.

4. For appropriations to nonprofit civic organizations, notices shall be published in a newspaper of general circulation in the municipality of the intent to make an appropriation, specifying the intended amount and purpose.

5a. Municipal Gas System's Donations to Chamber of Commerce and Economic and Community Organizations

Section 7-34-115(a)(2), Tennessee Code Annotated authorizes, if the municipal utility system is a natural gas utility system, a municipality's utility board or, if there is no such board, the municipal governing body to devote revenues derived from the municipal natural gas utility system to funding chambers of commerce and economic and community organizations in accordance with ordinance or resolution adopted by the governing body of the municipality. This law only applies to municipal natural gas utility systems that are located in counties having a population of less than 336,400 according to the 2010 federal census and any subsequent federal census.

The municipal utility board, or if there is no such board, the municipal governing body, shall devise guidelines directing for what purpose the appropriated money may be spent. These guidelines must provide generally that any funds appropriated must be used to benefit the customers of the municipal utility system. Any funds appropriated under subdivision (a)(2) must be used and expended under the direction and control of the governing body of a municipality in conjunction with the guidelines and procedures set forth in subdivision (a)(2)(B). Subdivision (a)(2)(B) also provides for the Comptroller of the Treasury to devise standard procedures to assist a municipal utility system whose revenues are devoted pursuant to subdivision (a)(2). The following are procedures devised by the Comptroller of the Treasury.

1. A municipality may appropriate funds for only those chambers of commerce, and economic and community organizations that provide services benefiting the customers of the municipal utility system.

2. The municipality should devise guidelines for what purpose the appropriated funds may be spent. The guidelines should indicate that any funds not spent by the end of the fiscal year should be considered restricted funds until spent in accordance with guidelines. The municipality's spending guidelines should be provided to any entity requesting or receiving appropriated funds.

3. Municipal natural gas utility system's payments to chambers of commerce and economic and community organizations shall be limited to the amounts appropriated for such purposes.

4. A municipal natural gas utility system, whose revenues are devoted pursuant to Section 7-34-115(a)(2), Tennessee Code Annotated shall not raise rates on customers to cover contributions targeted for economic development efforts.

5. The municipality shall require that each chamber of commerce, or economic and community organization that desires funding from a municipal natural gas utility system to submit an official request for funds. The request should include, but is not limited to:

a. Either a copy of the entity's most recently completed annual audit, or an internally prepared year-end income statement certified by the chief financial officer of the chamber of commerce or the economic and community organization;
b. A description of how the funding will serve the municipal utility system and its customers; and
c. the proposed use of the municipal utility system's contributions.

6. After the chamber of commerce's or economic and community organization's fiscal year end, the annual reporting form should be filed with the city clerk of the municipality within 90 days after the fiscal year end. The annual reporting will include details of all receipts and expenditures and any ending cash balance relative to the use of funds received from the municipal natural gas utility system. The annual reports filed under subdivision (a)(3) must be open for public inspection during regular business hours at the city clerk's office.

   The annual reporting form can be found under General Guidance tab Annual Reporting Form for Organizations Seeking Financial Assistance.

7. Financial reports must be available to fiscal officers of the municipality and are subject to audit under Section 6-56-105, Tennessee Code Annotated.

8. For appropriations to chamber of commerce, or economic and community organizations, notices shall be published either on the website of the municipality, if possible, or in a newspaper of general circulation in the municipality of the intent to make an appropriation, specifying the intended amount and purposes for which the appropriation will be spent.

The auditor should consider whether the municipality has complied with the above laws and procedures.

5b. Utility Filings with the Tennessee Board of Utility Regulation, Use of Utility Revenue, and Subsidies.

Public Chapter 463 creates the Tennessee board of utility regulation (TBOUR) and terminates the water and wastewater financing board and the utility management review board. This change is effective July 1, 2023. This law added natural gas systems of a county, metropolitan government, or incorporated municipalities and natural gas systems created by another public or private act of the general assembly under the jurisdiction of the TBOUR.

Public Chapter 463 defines a financially distressed utility system when a utility system has;

- a deficit total net position in any one year;
- a deficit unrestricted net position in any one year;
- a negative change in net position for two consecutive years without regard to any grants or capital contributions: or
- a utility district/utility system is currently in default on any of its debt instruments.

The Comptroller of the Treasury is required to file with the TBOUR a copy of the audited annual financial report of any financially distressed utility system.

The Comptroller of the Treasury is also required to refer a utility system to the board if the utility system:

- Fails to complete and submit to the comptroller for administrative review an audited annual financial report for two (2) consecutive years;
- Is found to have used utility funds to pay non-utility expenses, used non-utility funds to pay utility expenses, or transferred utility funds to any other non-utility fund or account, unless the use or transfer is allowed by law; or
- Is found to have made an illegal payment or transfer of funds.

- Sections 7-34-115 and 7-82-403, Tennessee Code Annotated, require all public works[1] and utility districts to remain self-supporting. In other words, transfers should not be made from any other fund to public works to subsidize their operations unless it is a one-time transfer of lawfully available funds to pay a non-operating expense that has been pre-approved by the Division of Local Government Finance. In the same manner, pension plan contributions and other post-employment benefit contributions for public works' employees should be made by the public works rather than another fund of the local government. Additionally, Section 7-34-115, Tennessee Code Annotated, details the appropriate uses of funds and requires illegal transfers to other funds to be repaid by those funds.

[1] Section 7-34-102, Tennessee Code Annotated, defines public works as "one (1) or a combination of two (2) or more of the following: water, sewerage, gas or electric heat, light or power works, plants and systems or parking facilities...."

6. Selected State Laws Affecting Special Purpose Governments

Special purpose governments must comply with federal and state laws and regulations and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both quantitative and qualitative aspects must be considered. No one source summarizes all the applicable laws and regulations. The following list of references should be used only as a guideline in determining which state laws affect special purpose governments and should not be considered a comprehensive list of compliance features. These references are not necessarily the most significant laws but represent areas in which recurring questions have arisen.

Selected Tennessee Code Annotated References for Emergency Communication Districts
(See separate manual for additional Tennessee Code Annotated references)

Creation and Board Members

Section 7-86-101 et seq.	Emergency Communications District Law
Section 7-86-105	Vacancies
Section 7-86-105(b)	Number of commissioners
Section 7-86-105(d)	Compensation
Section 7-86-105(i)	Board members may not be employees
Section 7-86-314	Removal of board members

Audits and Other Regulatory Reporting to Local Government Audit

Section 7-86-113	Annual audit required
Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Sections 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Sections 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations

Debt

Section 7-86-114	Power to issue bonds, notes and other debt
Section 7-86-115	Default – Liens
Section 7-86-116	Payment of bonds and interest
Section 7-86-121	Sale of bonds or notes
Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the Comptroller of the Treasury.

Financial Distress/Adverse Findings

Sections 7-86-301 – 319	Tennessee Emergency Communications Board (TECB) established
Section 7-86-304(b)	TECB to act upon adverse audit findings
Section 7-86-304(d)	Financial distress - defined

Investments/Deposits

Section 7-86-122	Authorized investments in accordance with Section 5-8-301
Section 7-86-126	Deposits to be secured by collateral or on deposit with a financial institution participating in the state collateral pool

Meetings

Section 7-86-123	Financial report required at every regularly scheduled meeting
Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice
Section 8-44-104	Minutes recorded and open for public inspection
Section 9-4-101	Collateral

Purchasing/Expenses

Section 7-86-121(b)	Subject to County Purchasing Law of 1983 (Section 5-14-201)
Section 7-86-125	Required to adopt travel policy
Section 7-86-306(a)(10)	TECB to establish standards concerning acceptable uses of revenue
Section 12-3-103	Contracts for professional services

Records

Section 7-86-120	Annual budget required
Section 7-86-304(a)	Comptroller to develop uniform financial accounting system
Section 9-2-102	Books closed within two (2) months after fiscal year end
Section 9-18-102(a)	Government to establish internal controls
Sections 10-7-501 – 515	Open Records law

Other

Section 7-86-102(d)	District funds are public funds and limited as to purpose
Section 7-86-102(c)	Limited oversight of equipment by the Tennessee Regulatory Authority
Section 7-86-108	Telephone charges (rates, increases, disposition of charges)
Section 7-86-109	Authority to receive funds
Section 7-86-110	Service supplier to provide annual accounting of amounts billed and collected
Section 7-86-112	Duty to reduce excess telephone service charge rate
Section 7-86-119	Surety bonds required
Section 7-86-205	Dispatcher training required within six months of hire date
Section 9-3-504	Pension Funding Policies
Section 12-4-101	Conflict of interest
Section 66-29-101	Unclaimed property

Selected Tennessee Code Annotated References for Housing Authorities

Creation and Commissioners

Section 13-20-101 et seq.	Housing Authorities Law
Section 13-20-103	Meetings and residence of commissioners
Section 13-20-408	Number, qualifications, vacancies and compensation of commissioners – City Housing Authorities
Section 13-20-507	Number, qualification, vacancies – County and Regional Housing Authorities
Section 13-20-408	Board members may not be city officials

Debt

Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the comptroller of the treasury.
Sections 13-20-601 - 614	Bond types, issuance, remedies, etc.

Investing and Banking

Section 9-1-107	Investments – deposits exceeding insurance limits
Section 9-4-101	Collateral
Section 13-20-104(a)(25).	Authority to invest funds in property or securities that savings banks may invest in
Section 45-2-620	Does not provide for deposits/investments in credit unions
Section 45-3-601	Authorized investments
Section 45-14-104(c)	Savings banks authorized to invest in same manner as associations in Chapter 3 of this Title

Audits and Other Regulatory Reporting to Local Government Audit

Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Sections 9-3-212 – 213	Audit required and to be submitted to Comptroller
Sections 12-9-101 – 112	Local Government Joint Venture Entity Reporting
Sections 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)

Other

Section 9-2-102	Books closed within two (2) months after fiscal year end
Section 9-3-504	Pension Funding Policies
Section 9-18-102(a)	Government to establish internal controls
Sections 13-20-105, 13-20-108 & 29-17-501 – 504	Eminent domain
Sections 13-20-410 & 12-4-101 – 102	Conflict of interest
Section 13-20-412	Report to be filed with municipality at least annually
Section 66-29-101	Unclaimed property
Section 13-20-102	Authority to develop project with an LLC or partnership

Selected Tennessee Code Annotated References for Utility Districts

Commissioners

Section 7-82-307	Vacancies fiduciary responsibilities
Section 7-82-308	Compensation
Section 7-82-308	Qualifications
Section 7-82-308(f)	Commissioner training required
Section 7-82-602	Number of commissioners

Audits and Other Regulatory Reporting to Local Government Audit

Section 7-82-309	Expense reimbursement policy, file with comptroller
Section 7-82-401	Annual audit required
Section 7-82-501	Shall Adopt Annual Budgets
Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Sections 12-9-101 – 112	Local Government Joint Venture Entity Reporting
Sections 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations

Debt

Section 7-82-501	Issuance of bonds or notes: review by the Division of Local Government Finance within the Comptroller's Office.
Sections 7-82-501–507	Bonds and notes
Section 7-34-111(g)	Revenue anticipation borrowing for emergencies.
Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the comptroller of the treasury.

Financial Distress/Unaccounted for Water Loss

Section 7-82-401	Audit manual
Sections 7-82-701–706	Tennessee Board of Utility Regulation
Section 7-82-401(f)(3) & 7-82-703	Criteria for financial distress
Sections 7-82-707(d)	Unaccounted for water loss

Investments

Section 7-82-108	Types authorized–to be secured
Section 9-4-103	Eligible collateral
Section 9-1-107	Depositories

Meetings

Section 7-82-308	Required meetings
Section 7-82-308	Time and place published
Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice

Records

Section 7-82-308	Minutes
Section 7-82-401	Audit–accounting manual–books and records
Section 7-82-401	Publishing financial statements & travel expenses
Section 8-44-104	Minutes open for public inspection
Section 9-2-102	Books closed within two (2) months after fiscal year end
Section 9-18-102(a)	Government to establish internal controls

Other

Section 7-82-113	Expenditures must be for a lawful district purpose
Section 7-82-302(a)	Power to sell appliances and heating systems that have a natural gas or propane gas component and have installment plans related to those sales.
Section 7-82-307(b)(1)(B)	Petitioner(s) to remove commissions to file $350 bond
Section 7-82-402	Telephone listing, office address
Section 7-82-403	Rates
Section 7-82-801	Purchasing policy
Section 9-3-504	Pension Funding Policies
Section 9-3-505	Requirement to fully fund pension plans
Section 12-4-101	Conflict of interest
Section 12-4-107	Contracts for professional services – engineering
Section 62-2-107	Employment of licensees in public works
Section 66-29-101	Unclaimed property
Section 68-221-904	Operators–certified

Selected Tennessee Code Annotated References for Public Charter Schools

Creation & Governing Body

Section 49-13-101 et seq.	Tennessee Public Charter Schools Act of 2002
Section 49-13-104-143	Revises various provisions of the Tennessee Public Charter Schools Act of 2002
Section 49-13-109	Parent representative on governing body
Section 49-13-111(o)	Annual training class required

Audits and Other Regulatory Reporting to Local Government Audit

Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Sections 49-13-111(j) & 49-13-127	Audit required and to be submitted to Comptroller
Section 49-13-127(a)(2)	Charter Management Organization (CMO) audit CMO required to submit annual financial report detailing transactions between the CMO and charter school operated by the CMO by August 31 of each year

Books and Records

Section 8-44-104	Minutes recorded and open for public inspection
Section 8-44-103	Adequate public notice
Section 9-2-102	Books closed within two (2) months after fiscal year end
Section 9-18-102(a)	Government to establish internal controls
Section 49-13-111(m)	Generally accepted accounting principles, uniform chart of accounts

Purchasing

Section 49-13-111(e)	Bids required on purchases in excess of $10,000
Sections 49-13-119 & 8-27-301 – 309	Participation in group health insurance plans
Section 49-13-136	Use of capital outlay funds

Debt

Section 49-13-124	Authority to issue debt
Section 9-21-134	Requirement to file a report on debt obligations with Local Government Finance and to report certain financial obligations, events of default, covenant violations, and credit downgrades to the comptroller of the treasury.

Other

Section 9-4-103	Eligible collateral
Section 8-44-103	Adequate public notice
Section 9-1-107	Depositories
Sections 49-13-111(g) & 12-4-101 – 102	Conflict of interest
Sections 49-13-111(h), 49-13-138 & 8-44-101	Sunshine Law
Section 49-13-111(l)	Fiscal year end June 30
Sections 49-13-111(n) & 8-19-101	Surety bonds required
Section 49-13-120	Annual report to sponsor required
Section 49-13-139	Requirements for website

Selected Tennessee Code Annotated References for Other Special Purpose Governments

Audits and Other Regulatory Reporting to Local Government Audit

Sections 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 9-3-212	Audit required and to be submitted to Comptroller

General Laws

Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice
Section 9-1-107	Depositories
Section 9-2-102	Books closed within two (2) months after fiscal year end
Sections 9-3-212 – 213	Audit required and to be submitted to Comptroller
Section 9-3-504	Pension Funding Policies
Section 9-3-505	Requirement to fully fund pension plans
Section 9-4-103	Eligible collateral
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Sections 10-7-501 – 515	Open Records law
Section 12-4-101	Conflict of interest
Section 66-29-101	Unclaimed property
Section 9-21-134	Requirement to file a report on debt obligations with the Division of Local Government Finance within the Comptroller's Office. Added requirement for public entities to report certain financial obligations and events of default to the comptroller of the treasury.

Entity Specific Laws

Section 13-26-101 et seq	Human Resource Agency Act of 1973
Section 7-36-101 et seq	Municipal Energy Authority Act
Section 7-53-101 et seq	Industrial Development Corporations (IDB)
Section 7-53-304	IDB - Debt listing to be filed with state funding board
Section 7-67-103 et seq	Sports Authority Act of 1993
Section 7-69-101 et seq	Tourism Development Authority Act
Sections 7-87-101 et seq & 7-5-101 et seq	Port Authority Act & Metropolitan Governments' Port Authority Act
Section 13-14-101 et seq	Development District Act of 1965

7. Selected State Laws – General Interest

Selected Tennessee Code Annotated References – Miscellaneous

	Voluntary Association for Sports
Section 49-6-416	Audit required for voluntary association that establishes and enforces bylaws or rules for interscholastic sports competition for public secondary schools in Tennessee
	Charter Management Organization (CMO)
Section 49-13-127(a)	Audit for charter management organization
	CPA, Public Official Immunity & Required Reporting of Unlawful Conduct
Section 8-4-503&504	Public official, CPA or firm reporting, in good faith, required to report unlawful conduct shall not be liable in any civil or criminal action that is based solely on the decision to report such matters to the comptroller of the treasury.

8. Attorney General Opinions

The State Attorney General issues written legal opinions to certain state officials upon request. Copies of opinions issued since 2000 are available through the following AG website. Requests can be made for Attorney General opinions issued before 2000 by contacting the opinion line at 615-741-2518. The Attorney General is required to provide written legal opinions to "the governor, secretary of state, state treasurer, comptroller of the treasury, members of the general assembly and other state officials...in the discharge of their official duties." 8-6-109(b)(6), Tennessee Code Annotated. Local Governments should work with their legal counsel to determine if there are any applicable Attorney General opinions.

APPENDIX E

MISCELLANEOUS

Audit Procurement Guide

This document is included in the *Audit Manual* to assist auditors in understanding the audit environment in the State of Tennessee. Local governments are encouraged but not required to use this guide.

Audit Procurement Guide

2026

Tennessee Comptroller of the Treasury

Division of Local Government Audit

Table of Contents

	Page
Introduction	1
What are the purposes of the financial and compliance audit?	1
What information should the audit contain?	2
What qualifications should an auditor have?	3
How is the auditor selected?	3
How important is cost in making a decision?	4
Auditor rotation	4
The audit committee	4
When to contract	5
The audit contract	5
What information should the government have available for the auditor?	5
Where can additional information be obtained?	6
Example Request for Qualifications	7
Evaluation	12

AUDIT PROCUREMENT GUIDE

1. Introduction

Under existing laws, the Office of the Comptroller of the Treasury of the State of Tennessee is responsible for ensuring that each local government is audited annually. Such an audit may be performed under contract with an external audit firm or by the staff of the Comptroller's Office. This audit procurement guide is intended to assist government officials in selecting an auditor and contracting for the performance of such an audit. This is only a guide and may be modified to fit a local government's specific needs. Questions are often raised about this process and what should be included in the audit report. A synopsis of the questions asked most often follows:

2. What are the purposes of the financial and compliance audit?

The primary purpose of the audit is to determine if financial statements are presented fairly and comply with the requirements of state and local laws and regulations. However, the audit has many other benefits:

- The report is available to any citizen interested in the cost of government and how government is funded.
- The audit identifies problems in the local government's financial operation and recommends corrective action.
- The audit enables government officials to assess the local government's financial condition.
- The audit can be used to provide other agencies with information regarding grants.
- The audit can be used by lending institutions to establish the credit worthiness of the local government.
- The audit can be used by the governing body to determine whether the local government has faithfully followed its mandates and policies.
- The audit can serve as a means of preventing and detecting fraud and dishonesty or unintentional misapplication of funds.

3. What information should the audit contain?

There are several financial statements, schedules, and reports that the audit report must contain before approval by the State Comptroller. A qualified auditor will automatically ensure that these items are included in the report.

A. Introductory Section (table of contents, letter(s) of transmittal, roster of officials and audit committee members, if an audit committee exists, etc.)

B. Financial Section

1. Independent Auditor's Report on the Financial Statements

   a. The report should be either (1) unmodified, (2) qualified, (3) disclaimer, or (4) adverse. The report should detail why an unmodified opinion could not be given.

2. Management's Discussion and Analysis

3. Financial Statements

4. Notes to the Financial Statements

5. Required Supplementary Information (RSI)

6. Combining Statements

7. Individual Fund Statements

8. Supplemental Schedules (including a Schedule of Expenditures of Federal Awards and State Financial Assistance)

9. Statistical Information

10. Independent Auditor's Report(s) on Internal Control and Compliance

11. The report(s) on internal control and compliance should state that the audit was performed in accordance with *Government Auditing Standards* (generally accepted government auditing standards (GAGAS)) and the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (as applicable).

12. The report(s) on internal control and compliance should detail any weaknesses noted or make reference to the findings and recommendations section of the audit report. When reporting on instances of noncompliance and internal control weaknesses, the requirements of *Government Auditing*

Standards (generally accepted government auditing standards (GAGAS)) and the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (as applicable) should be followed.

4. What qualifications should an auditor have?

For the audit to be accepted by state and federal governments, the auditor must be either a certified public accountant licensed to practice in Tennessee or in another state, or a member of the audit staff of the Tennessee State Comptroller's Office. Out-of-state firms auditing organizations that are not based in the State of Tennessee must comply with the requirements of the applicable state(s).

The auditor should have adequate training and experience in governmental accounting and be in good standing in the profession. The auditor in charge of the fieldwork should have a practical working knowledge of applicable state and federal laws and regulations. The auditor should be independent under the requirements of the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards* in relationship to the engagement. The audit firm should be currently registered with the State Board of Accountancy (firms with a physical presence in the State of Tennessee) and should have participated in an external quality control review at least once every three years, conducted by an organization not affiliated with the firm. (A copy of the most recent external quality control review report should be provided to the local government.) All audit staff assigned to the audit should have the necessary hours of continuing professional education required by *Government Auditing Standards*.

5. How is the auditor selected?

Tennessee Code Annotated § 12-3-1209(a) requires contracts for professional services to be awarded on the basis of recognized competence and integrity. In order to award a contract on a firm's competence and integrity, it is recommended that a local government make the selection based on the technical criteria presented on page 14. The local government should choose the highest graded firm based on each firm's statement of qualifications. The highest graded firm should then be contacted to quote the cost of the audit services. If at this time the cost of the audit service is too high, the next highest graded firm should then be selected.

The evaluation factors found on page 12 are not exhaustive. The local government's representatives should not feel constrained about limiting the evaluation factors to those listed in this publication. However, additional evaluation factors should be relevant to the audit and to the audit firm's ability to respond.

6. How important is cost in making a decision?

Tennessee Code Annotated § 12-3-1209(a) prohibits contracts for professional services from being awarded based on competitive solicitations. However, the local government may include the estimated maximum liability for the contract in the initial Request for Qualifications solicitation document. Doing so may help the local government from receiving responses from CPA firms that would exceed the budgeted amount for the audit.

7. Auditor rotation

The Comptroller's Office encourages auditor rotation when a government engages a CPA firm to perform the annual audit.

Local governments should periodically evaluate and select audit services through a qualifications-based procurement process in accordance with Tennessee Code Annotated § 12-3-1209(a). If firm rotation is not practical due to the limited availability of qualified governmental audit firms, other safeguards may be considered, such as rotation of senior engagement personnel, an independent engagement quality review, review by personnel not previously assigned to the engagement, or consultation with another qualified auditor.

If the Comptroller determines that an audit firm has not maintained independence, including failing to establish appropriate safeguards for threats created by auditing the same entity for an extended period, the Comptroller may deny approval of the audit contract.

8. The audit committee

Local governments are encouraged to consider establishing an audit committee. The comptroller may require that an audit committee be established in any local government in this state that:

(1) Is in noncompliance with the accounting and financial reporting standards required by the Governmental Accounting Standards Board (GASB); or

(2) Has recurring findings from the annual audit for three (3) or more consecutive years as determined by the comptroller to be a material weakness in internal control or material noncompliance under government auditing standards.

The governing body of the local government shall create the audit committee. The audit committee members shall be external to management and may be members of the governing body, citizens from within the boundaries of the local government, or a combination of both. Members of the audit committee shall be selected by the legislative body. The audit committee shall establish responsibilities and duties that are stated in a resolution approved by the legislative body. The responsibilities and duties, at a minimum, shall address financial and other reporting practices, internal control, compliance with laws and regulations, and ethics. The resolution creating the duties and responsibilities of the audit committee shall be submitted to the comptroller prior to approval by the legislative body (Tennessee Code Annotated, Section 9-3-405). The comptroller shall review the proposed resolution and report back to the local government on whether the resolution follows recommended guidelines for an audit committee.

The resolution adopted by the legislative body must conform to the report issued by the comptroller.

9. When to contract

So that an auditor may have time to adequately plan and schedule the audit, a local government should award the contract as early in a fiscal year as possible. A good time to start the procurement process is immediately after the annual audit of the prior year is completed and presented to the governing body and the Comptroller of the Treasury. Every effort should be made to award the contract prior to the end of the fiscal year to be audited.

10. The audit contract

An electronic audit contract should be executed and submitted in accordance with provisions detailed in this ***Audit Manual***. The contract provides a section that allows the local government or auditor to add special restrictions or requirements. A local government would be well advised to use this section to formalize any verbal agreements made with the auditor.

Upon approval by the Comptroller of the Treasury, an amendment to the existing contract may be made by the organization's management, those charged with governance, and the auditor to address any special circumstances that require changes in the existing contract. Examples of special circumstances might include the additional work performed due to poor accounting records or a fraud investigation.

A sample copy of the most current version of the contract can be obtained at the following web address: https://apps.cot.tn.gov/CARS/ under "Helpful Links."

11. What information should the local government have available for the auditor?

Government officials can reduce audit costs significantly by preparing in advance for the audit. Inaccurate and incomplete financial records will cause the auditor to spend many extra hours during the audit examination. The auditor will have no choice but to bill the local government for these hours.

The local government can prepare, in advance, certain information the auditor will need, including:

- A list of uncollected receivables.
- A list of capital assets acquired during the year.
- A list of principal revenue sources.
- A list of accounts receivable and payable and related reconciliations to the general ledger account balances.

- A list of insurance in force.
- Grant applications and regulations (grant contract numbers, federal ALN numbers).
- Bank account reconciliations
- Investments.
- A list of grantors.
- Bond and note information.
- Minutes of the board meetings.

12. Where can additional information be obtained?

References

Tennessee Comptroller of the Treasury – *Audit Manual*

American Institute of Certified Public Accountants (AICPA), Audit and Accounting Guide: *State and Local Governments*.

Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,*

Government Finance Officers Association, *An Elected Official's Guide: Audit Committees* and *An Elected Official's Guide to Auditing*.

Technical Assistance

State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit, (615) 401-7841.

[1] REQUEST FOR QUALIFICATIONS
Financial and Compliance Audit
_____(Local government)

Summary

_____ has issued this request for qualifications from interested auditors, who are qualified under state law and regulations, for the performance of a financial and compliance audit of _____ in accordance with the requirements of the laws and/or requirements of the State of Tennessee. This audit shall be for the period beginning _____ and ending _____.

Scope

The auditor shall perform a financial and compliance audit of the financial statements of all funds and grant contracts of the local government.

Please Note:

The selection of an audit firm to provide the described scope of services will not be made on cost but will be made based on the consideration of qualifications-related factors contained in this Request for Qualifications. Optional Statement, "However, in no event shall the maximum liability of the contract resulting from this Request for Qualifications exceed <$X.XX>".

Tentative Schedule:

	EVENT	TIME	DATES
1.	RFQ Released to Audit Firms		
2.	Submittal for Intent to Respond by Email and Request for Clarifications.		
3.	Posting of RFQ Amendments, if necessary		
4.	RFQ Submittals Due to Local Government.		
5.	Review of Statements.		
6.	Notice to Audit Firm with Intent to Engage.		
7.	Engagement Discussions and Contract Execution.		
8.	Contract Start Date.		

[1] The information provided in Section App.E should be used for general informational purposes only. Local governments should consult with their attorney(s) and/or procurement staff with respect to any specific issues relative to the respective procurement.

Type of Audit

The auditor shall conduct the audit in accordance with *Government Auditing Standards* and requirements prescribed by the Comptroller of the Treasury, State of Tennessee. If applicable, the audit should be conducted in accordance with the provisions of the Single Audit Act and Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and any applicable federal management circulars.

General Requirements

1. The auditor shall, as part of the written audit report, submit to the organization's governing body a report containing an expression of an opinion that the financial statements are fairly presented, or an opinion qualified as to certain funds or items in the financial statements, a disclaimer of opinion and the reasons for the disclaimer, or an adverse opinion, and shall explain in every detail any unusual items or circumstances under which the auditor was unable to reach a conclusion. This report shall state that generally accepted government auditing standards have been followed in the audit.

2. The auditor's opinion shall be expressed on the opinion units identified in the AICPA Audit and Accounting Guide: *State and Local Governments,* as well as the additional requirements in the State of Tennessee Department of Audit *Audit Manual*.

3. The auditor shall furnish copies of the report to the governing body. The auditor shall file copies of said report with the Comptroller of the Treasury, and with the appropriate officials of the granting agencies listed below:

   _____

   _____

4. If a management letter or any other reports or correspondence relating to findings or recommendations are issued in connection with this audit, a copy shall be filed with the Comptroller of the Treasury. Such management letters, reports, or correspondence shall be consistent with the findings published in the audit report (i.e., they shall disclose no matters not also required by GAS or the comptroller's additional requirements to be disclosed in the findings found in the published audit report).

5. The audit shall begin prior to _____, and the reports shall be submitted prior to _____, but in no case shall be filed later than six (6) months after the fiscal year-end.

6. Pertinent data from the working papers shall be available for five years for reference if requested by the local government.

7. Any reasonable suspicion of fraud, (regardless of materiality) or other unlawful acts including, but not limited to, theft, forgery, credit/debit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in Tennessee Code

Annotated, § 39-16-402, involving public money, property, or services shall, upon discovery, be promptly reported in writing by the auditor to the Comptroller of the Treasury, State of Tennessee, who shall under all circumstances have the authority, at the discretion of the Comptroller, to directly investigate such matters. Notwithstanding anything herein to the contrary, the Comptroller of the Treasury, State of Tennessee, acknowledges that the auditor's responsibility hereunder is to design its audit to obtain reasonable, but not absolute, assurance of detecting fraud that would have a material effect on the financial statements, as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. If the circumstances disclosed by the audit call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the organization's management and those in charge of governance in writing of the need for such additional investigation and the additional compensation required therefor. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's management and those charged with governance and the auditor for such additional investigation.

8. An audit exit conference with those charged with governance will be conducted by the auditor in charge. At this time, the findings and recommendations regarding compliance and internal control shall be discussed. Those charged with governance shall have the opportunity to respond in writing, to the findings. Responses shall be included in the audit report.

9. The records of the local government will not be removed from government offices except with express written permission of the local government.

10. The audit firm shall state its willingness to enter into a contract for one year, renewable annually for each of the next two years by the local government.

11. All adjusting entries will be submitted to the local government in writing with sufficient explanation so that they can be easily understood and properly posted to the financial records. Example: listing of invoices charged to accounts payable supporting any adjusting entries.

General Information

The local government shall have closed and balanced all accounts and shall have prepared financial statements for all funds to be examined by the auditor. Page 11 presents an example that should be expanded to provide the auditor with details of the local government's accounting system.

If additional information is required prior to submitting a proposal, inquiries should be directed to _____ at _____, or by telephone at _____.

INFORMATION REQUIRED FOR STATEMENT OF QUALIFICATIONS SUBMISSIONS

The statement of qualifications submission shall be styled at the discretion of the submitter; however, at a minimum it must address these areas:

1. Nature and extent of the firm's governmental auditing experience.

2. A copy of the audit firm's most recent external quality control review report should be provided to the local government.

3. Organization size and structure of the firm.

4. Qualifications of staff to be assigned to the work. Education, position in firm, and years and types of experience will be considered.

5. Availability of the auditor to the local government for specialized consultation and support assistance on sensitive or highly specialized issues.

6. Type and level of training provided to the firm's staff. Assurance that all audit staff assigned to the audit have obtained the necessary hours of continuing professional education required by *Government Auditing Standards*.

7. The audit fee must be quoted either as a fixed amount or rate per hour, with total estimated hours. If the latter method is used, a maximum amount must be stated for budgetary purposes. Also, estimated incidental expenses, such as travel and supplies, will be included.

Reservation of Right

<Local government name> reserves the right to reject any or all submissions, to waive technicalities or informalities, and to accept any proposal deemed to be in the best interest of the local government.

_____

Local government's Name

Budget _____

Accounting System	
Number of funds	
Number of component units (governmental, proprietary, trust and agency)	
Checking accounts	
Number of purchase orders	/year
Number of checks written	/year
Number of receipts	/year
Payroll	
Number of employees	
Frequency of payroll	
Number of payroll checks	/year
Other Records	
Item	**Volume**

EVALUATION

The following factors should ordinarily be considered during the evaluation:

Technical Factors

1. Does the proposal clearly state an understanding of the work to be performed?

   Evaluators should consider:

   - appropriateness and adequacy of proposed procedures;
   - reasonableness of time estimates;
   - appropriateness of assigned staff levels;
   - timeliness of expected completion.

2. Technical experience of firm.

3. Qualifications of staff.

4. Size and structure of firm.

EXAMPLE EVALUATION METHOD FOR QUALIFICATIONS

The following is an example of a method of evaluating qualifications submissions. The evaluation formula and the values assigned to the criteria given are for illustration only. Local governments should design formulas and criteria that meet its needs.

Total scores will be determined by adding the points received for technical qualifications (maximum of 100 points). The total score will be determined by the following formula:

$$\frac{\text{Technical score for this firm}}{\text{Highest technical score received}} \times 100 = \text{Technical score}$$

In the event that oral interviews are necessary, additional points will be given on a scale of 0-10. Although the total score will be a significant factor, the local government reserves the right to make the final selection.

The evaluation of technical qualifications will be based on the following criteria:

Mandatory Criteria

Auditors will not be considered unless they meet each of the following criteria:

1. Must be a certified public accountant properly licensed to practice in the State of Tennessee or be in compliance with the requirements of *TCA* 62-1-117(a)(1).

2. Must meet the independence standard established by GAO.

Technical Criteria

Auditors who have met each of the above criteria should be evaluated using the following:

	Point Range
1. Prior experience in auditing local governments. (Consider: size, complexity, etc.)	0-25
2. Organization size and structure of firm.	0-10
3. Qualification of staff, including consultants, to be assigned to the audit. (Education, position in firm, and years and types of experience will be considered.) (0-25)	
(a) Qualifications and audit team makeup	0-25
(b) Overall supervision to be exercised over audit team by firm's management	0-10
4. Firm's understanding of work to be performed. This will be determined by the approach to the audit and the time estimated to perform each section. (0-20)	
(a) Audit coverage	0-20
(b) Realistic time estimates of program section	0-10
Technical points	0-100
Maximum points	100

APPENDIX F

AUDITS FOR STATE OF TENNESSEE FINANCIAL REPORT

In order to facilitate the timely preparation of the ACFR for the State of Tennessee, the following audits with June 30 fiscal year ends must be submitted through the CARS system by October 31 of that same year. The Uniform Contract to Audit Accounts should reflect an October 31st or earlier due date. Audits with December 31 fiscal year ends should be submitted on or before June 30 of the following year.

Entity Name	Fiscal Year End	Relationship to State of TN
Agriculture Foundation for Tennessee Tech, Inc.	June 30	Tennessee Tech University
Cleveland State Community College Foundation	June 30	Cleveland State Community College
East Tennessee State University Foundation	June 30	East Tennessee State University
East Tennessee State University Research Foundation	June 30	East Tennessee State University
Medical Education Assistance Corporation	June 30	East Tennessee State University
Northeast State Community College Foundation	June 30	Northeast State Community College
Memphis Athletic Foundation	June 30	University of Memphis
Herff Trust-University of Memphis	June 30	University of Memphis
Tennessee Boll Weevil Eradication Foundation, Inc.	December 31	Component Unit
Tennessee Soybean Promotion Board	June 30	Fund of State of Tennessee
University of Chattanooga Foundation	June 30	University of Tennessee
University of Memphis Foundation	June 30	University of Memphis
University of Memphis Research Foundation	June 30	University of Memphis
University of Tennessee Foundation, Inc.	June 30	University of Tennessee
University of Tennessee Research Foundation	June 30	University of Tennessee
Walter State University Foundation (currently audited by State Audit)	June 30	Walter State University
University of Memphis Real Estate Foundation	June 30	University of Memphis