

Introduction

This manual sets forth the standards and requirements for audits of Tennessee local governmental units, nongovernmental entities receiving subrecipient funds from or through the state and other organizations. 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.

Statutory Authority

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 personnel 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.

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 in the State of Tennessee.

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 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.

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.

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.

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.

Section 9-3-212, *Tennessee Code Annotated*, states that it shall be the duty of 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.

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.

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.

Section 69-6-142, *Tennessee Code Annotated*, states that the comptroller of the treasury, through the department of audit, shall be responsible for ensuring that the audits of watershed districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

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 communication districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Section 12-10-109, *Tennessee Code Annotated*, states 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.