STATE OF TENNESSEE

DEPARTMENT OF AUDIT

AUDIT MANUAL

AUDITING AND ACCOUNTING FOR LOCAL GOVERNMENTAL UNITS AND OTHER ORGANIZATIONS

STANDARDS AND PROCEDURES

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(EFFECTIVE FOR AUDITS ISSUED AFTER JUNE 30, 2013)

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PREFACE

This audit manual supersedes the June 2012 State of Tennessee Department of Audit, *Audit Manual*, and any subsequent revisions or additions to that manual. This manual should be used for preparing financial reports and for audits issued on or after June 30, 2013. This manual addresses auditing requirements and reporting requirements for Tennessee governmental units, recipients of subrecipient funds and other organizations.

The information in this manual is provided to help auditors gain a basic understanding of the governmental environment in Tennessee. The manual includes general auditing and reporting standards and requirements (Section A) and characteristics of specific entities (Sections B through J). A brief reference listing with web links is included as well (Section K). The appendices include selected schedule examples, selected references to *Tennessee Code Annotated* for counties, municipalities, and utility districts, some suggested audit procedures, and other miscellaneous information.

This manual directs Tennessee governmental units, recipients of subrecipient funds, 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 AICPA industry audit guides, *Codification of Statements on Auditing Standards*, *Government Auditing Standards,* OMB circulars, etc. To comply with the standards, Tennessee governmental units, recipients of subrecipient funds, other organizations and auditors must be knowledgeable of the most recent changes in accounting and/or auditing.

References in this manual are enclosed in parentheses. For questions about this manual, please contact the Comptroller of the Treasury, Department of Audit.

Local Government Audit	State Audit
(615) 401-7841	(615) 401-7897

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 and Contractual Authority

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 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.

Audits - Grantees/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. The comptroller has hereby prescribed that any nongovernmental entity that expends $500,000 or more under a state contract which establishes a subrecipient relationship (which may include federal pass-through awards) during a year is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

Audits - TNInvestcos

Section 4-28-110(a)(4), *Tennessee Code Annotated*, requires TNInvestco entities that administer funds for economic development in the State of Tennessee to have an audit conducted within 180 days of the close of their fiscal year. These entities are required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

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

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.

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.

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,* 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.

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.

Audits – Public building authorities

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.

Audits – Insurance Pools

Section 29-20-401(g)(1)(A), *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 shall be audited annually in accordance with standards established by the comptroller of the treasury. A copy of the audit shall be filed with the comptroller as soon as practical, but in no event later than one hundred twenty (120) days following the end of the pool's or reserve fund's fiscal year. Notwithstanding this subdivision (g)(1)(A), the operations, books and records of any pool or reserve fund shall be subject to audit and review by the comptroller or any person authorized by the comptroller. The commissioner of commerce and insurance shall assist the comptroller in the audit upon the written request by the comptroller".

Audits – Community corrections

Section 40-36-303(d)(1-3), *Tennessee Code Annotated*, 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 – 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 – Watershed Districts

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.

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 Intellectual and Developmental Disabilities (DIDD) require agencies contracting under the medicaid waiver program to have an audit. Although these contracts establish a vendor relationship, the DIDD services contract and the DIDD 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 $500,000 or more under these contracts is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

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 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* (***YELLOW BOOK***) which sets forth the auditing standards required for audits of all federal programs. The audits of Tennessee governmental units, recipients of subrecipient funds, 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 in the auditor's report that the audit was made in accordance with *Government Auditing Standards* (generally accepted government auditing standards) will be acceptable language to indicate that the audit was made in accordance with these standards.

Those governmental units and recipients of subrecipient funding that are subject to any federal audit provisions must comply with those audit standards as well (***OMB CIRCULARS***).

The statutory and contractual audit requirements for different entities are summarized in the introduction of this manual.

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 DIDD must include the parent and all subsidiaries. Audits of agencies whose audit requirement is NOT driven by funding from DIDD, may, if approved by 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 school activity 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 activity funds and noncentralized cafeteria funds must be covered in the auditor's opinion on the financial statements.

For all audits, 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. 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, OMB circulars, and 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 pages ***A-7 - 9*** for additional guidance.)

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 in governmental accounting 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. Continued ratings other than pass may result in the audit firm not being eligible to conduct audits for the Comptroller of the Treasury. Additional information regarding actions that may be taken by the Comptroller of the Treasury can be found on the web at http://comptroller.tn.gov/la/ManualsGuidance.asp .

Awarding Audit Contracts

Section 12-4-106, *Tennessee Code Annotated,* does not allow counties, municipalities, metropolitan governments, towns, 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 Proposal. The Request For Proposal 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 PROPOSAL – APPENDIX E***) If an audit organization needs to include a basic contract form in the request for proposal, a "sample" fill-in pdf contract can be accessed on the Comptroller's web site at

http://www.comptroller.tn.gov/la/pdf/20120816ContractToAuditAccountsSampleFillin6-11-2012Final.pdf .

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 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 should use an electronic contract, following the guidelines detailed later in this section. All other organizations are required to use the web based application known as the Contract and Report System (CARS) for executing the contract to audit accounts. The details for using this system are accessible through the CARS application. (***CARS***) 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 (***TENNCARE CONTRACT***). 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

The contract to audit accounts includes provisions in Section 8 to address certain requirements related to auditing requirements in the *Codification of Statements on Auditing Standards*, Section AU-C 600. 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.

If the uniform contract includes more than one annual audit period, financial reporting shall conform with the guidelines in ***Section A, page 12***, Special Reporting Considerations and Sections B through I of this manual, as applicable.

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, 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. 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.

When a certified public accountant is considering conducting a special audit-related service, including agreed-upon procedures, that is 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.

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 agreed upon procedures must be conducted while school is still in session, all schools should contract by September 30 of the fiscal year to be audited (nine months **prior** to the end of the fiscal year).

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 Help section of the main web page for the CARS application. Selected requirements related to electronic reports are included below; however, firms and their clients are responsible for complying with all CARS requirements.

Electronic Reports:

> With the exception of certain agencies that file unaudited information or that file a courtesy report with our office, electronic reports, related management letters, water loss Excel files, and letters to those charged with governance may only be filed by the audit firm.
>
> When water loss Excel files are uploaded, language similar to the following may be included in the comments section of the submission form:
>
>> This is the official financial report. We are also uploading the AWWA Excel file in compliance with regulatory requirements. Our audit firm takes no responsibility for the separate AWWA Excel file.

Electronic reports are posted to our web site upon receipt. When revised reports are submitted, the original file is replaced with the revised one.

The following guidelines should be followed for electronic reports.

1. The electronic report must be indistinguishable from any paper copy(s) issued.

2. Security settings must allow printing and commenting.

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

4. Scanned documents that include information which is highly dependent on color to convey information (such as graphs, pie charts, etc.) should be scanned in color. Failing to scan in color limits the usefulness of such information.

5. Pages should be in the proper order and should generally be oriented for reading purposes. When a financial statement can not 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*.

6. 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 web site.

7. A separately issued management letter that is referred to in the report on internal control and compliance 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.

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

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

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

11. Renaming of the file – please note that we will rename the file names on the report and management letter to meet our internal standardized naming conventions.

12. Searchable documents are more useful than those that are scanned as pictures.

Consideration of Fraud and Illegal Acts and Audit Procedures

The auditor is responsible for performing risk assessment procedures and developing an audit plan for each audit. No one audit plan will suffice in every audit and no group of audit steps is comprehensive enough to cover all circumstances. However, if the Comptroller's office or any state or federal regulatory body has publicly released a fraud investigative report during the contracted audit period, regardless of the period covered in the report:

- the fraud investigative report must be considered when conducting the audit and reporting on internal control and compliance;
- relevant matters from fraud investigative reports should be addressed in the annual financial 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;
- material matters addressed by the fraud investigative report that remain unresolved in subsequent audit periods should be reported in the notes to the financial statements in detail by case. The detailed information should be referenced to the fraud investigative report and include the information included in the Schedule of Cash Shortages and Thefts until such time as there is a disposition of the matter;
- all instances of cash shortages, fraud and theft that are addressed in the investigative report issued, even if it is not deemed material, should be acknowledged in the other matters section of the internal control and compliance report issued in accordance with *Government Auditing Standards* and should be referenced to the fraud investigative report.
- the status of all cash shortages, thefts and fraud, regardless of materiality and including those required to be reported in the notes to the financial statements, must be reported and continue to be reported in a separate unaudited schedule. This schedule will not be a part of the audit report, but should be submitted through ***CARS*** at the same time as the audited financial statements. The schedule should be in a pdf format. This schedule should track all shortages, regardless of when they were initially reported, until all restitution has been collected or the board has taken and documented an official final action (write-off, insurance collection, etc.). Regardless of the format used, the communication should include information similar to the following:

Schedule of Cash Shortages and Thefts – Current and Prior Years

Town of Anywhere
Schedule of Cash Shortages and Thefts – Current and Prior Years
June 30, 2013

Department	Original Amount	Fiscal Year First Reported	Balance at Beginning of Year	Amount Collected in Current Year	Other Decrease in Current Year (1)	Balance at End of Year	Comments
Water and Sewer Fund	$3,000	2013	-0-	$2,000	-0-	$1,000	See Finding #1, 2013 for details
Board of Education	$15,000	2011	$14,000	$1,000	-0-	$13,000	Shortage related to petty cash
Water and Sewer Fund	$500	2009	$500	$500	-0-	-0-	Shortage related to utility bill collections.
General Government	$10,000	2007	$10,000	$8,000	$2,000	-0-	$8,000 insurance recovery, $2,000 written-off as uncollectable
General Government	$200	2013	-0-	$200	-0-	-0-	Unauthorized travel claim repaid to city by claimant
General Government	$4,500	2013	-0-	-0-	-0-	$4,500	Insurance claim in process.

(1)Include a comment to explain other decrease in balance.

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. The Schedule of Cash Shortages and Thefts – Current and Prior Years should include a note regarding the on-going investigation and that final amounts are not yet available. Any known amount should be disclosed unless precluded based on the standards.

The information in this schedule will be included in an annual report published by Local Government Audit and posted on the web.

Although the Comptroller's web site addresses some compliance requirements, it should **not** be considered to be a comprehensive resource for all requirements related to an audit. If an auditor is not sure of the compliance issues governing a particular state funding source, the appropriate department should be contacted. Selected state department addresses and telephone numbers may be located at the following web site (***STATE DEPARTMENT PHONE NUMBERS***).

Item 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*, § 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.

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 informed of all future failures to meet the above referenced contractual obligations so that they may take whatever disciplinary action they deem appropriate.

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. However, the division cannot assemble the confirmations until all state departments provide the necessary information. For additional information regarding on-line confirmations, please see the

Comptroller's web site (***ON-LINE 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
Suite 1500
James K. Polk State Office Building
Nashville, TN 37243-1402
FAX (615) 741-6216

The following is a list of confirmations available through the Comptroller's web site. Check the web for updates in this listing. (Banks approved to operate in the ***Tennessee Bank Collateral Pool, and grantor agency contacts*** are available on the web. Program guidelines and requirements must be confirmed directly with the grantor.)

1. State-shared revenues to counties

   (a) Excise Tax
   (b) Petroleum Special
   (c) Mineral Severance Tax
   (d) Coal Severance Tax
   (e) Gas-Oil Severance Tax
   (f) Mixed Drink Tax
   (g) Income Tax
   (h) Gasoline and Motor Fuel Tax
   (i) Gas 1989
   (j) Gas 3 Cent
   (k) Beer Tax
   (l) Alcoholic Beverage Tax & Special Alcoholic Beverage Tax
   (m) Local Option Sales Tax
   (n) TVA-In Lieu of Tax
   (o) Flood Control
   (p) Forest Title I or Forest Title III
   (q) Telecommunications Sales Tax
   (r) Forest Product Sales
   (s) Police Jurisdictions – Unauthorized Substances Tax
   (t) Business Tax (Trustee and County Clerk)

2. State-shared revenues to municipalities

   (a) Income Tax
   (b) Gasoline and Motor Fuel Tax
   (c) Gas 1989
   (d) Gas 3 Cent
   (e) Beer Tax
   (f) TVA-In Lieu of Tax

(g) Sales Tax
(h) Local Options Sales Tax
(i) Mixed Drink Tax
(j) Petroleum Special
(k) Excise Tax
(l) Telecommunications Sales Tax
(m) Police Jurisdictions – Unauthorized Substances Tax
(n) Alcoholic Beverage Tax

3. Wholesale Beer Tax Payments

4. Subrecipient Payments (including certain separate THDA Payments)
(This information has not been available for the last few years. Continued efforts are being made to provide this information in the future. Please check our website for the current status.)

5. County roads payments and local road enhancement payments to county and municipal governments

6. TVA payments to counties

7. Mortgage realty payments to counties

8. Fish and game license payments to counties

9. Local Government Insurance Cooperative Insolvency Assessment

10. Gross value of commodities distributed to school systems (detailed distributions are not currently available)

11. Gross value and detailed distributions of commodities to certain nonprofit organizations

12. Retirement information for entities participating in the Tennessee Consolidated Retirement System

13. State Department of Education allocations

14. ADA information from the State Department of Education

15. Emergency Communications Districts -Shared Wireless Charge

16. Drinking Water and Clean Water Loan Programs

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

Table of contents, letter(s) of transmittal, roster of publicly elected officials, roster of management officials (in the annual financial report issued by a municipality, this would include the employee with financial oversight responsibility designated to meet the requirements of *Tennessee Code Annotated*, Section 6-56-401 et. al), roster of board members, and 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 Guide, *State and Local Governments,* 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.

B. Management's Discussion and Analysis

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

D. Required Supplementary Information (GASB or FASB)

E. Supplemental information (refer to Sections B through H for additional information for a particular 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).

Different requirements regarding the level of information to be presented in this schedule are governed by the type of entity being audited.

Counties and related organizations–This schedule must identify the various programs under which the organization received government funds (federal and state assistance). The minimum amount of information is set forth in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Municipalities and related organizations, nonprofits, housing authorities and, utility districts, public charter schools, and other special purpose governments–

- This schedule must identify the various programs under which the organization received government funds (federal and state assistance).
- The minimum amount of information is illustrated in an example in ***Appendix A***.
- The title may change if no federal funds are involved or if only federal funds are involved.
- This schedule is required regardless of the amount of state and/or federal funding received.
- This schedule (and the format thereof) is required even if all grants were received directly from the federal government.

III. Statistical Tables (as required by GAAP, if a CAFR is issued)

IV. Internal Control and Compliance Section/Single Audit Section

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 OMB Circular A-133 shall include the additional reporting requirements outlined in the Circular.

All findings addressed in the reports should include management's responses.

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

1. 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.

2. 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.

Special Reporting Considerations

- 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.

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. (***GO TO SELECTED LAWS – 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.

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 comprehensive annual financial report. 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 comprehensive annual financial report (CAFR) 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 a comprehensive annual financial report (CAFR). 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.

GASB permits budgetary information to be included as Required Supplementary Information or as basic financial statements for the general fund and each major special revenue fund for which a legally adopted annual budget is required. However, this office requires the detailed legally adopted budgetary information for these funds to be included in the basic financial statements. The auditor's opinion should cover this information. Budgetary information for other major funds would be included in supplemental information.

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 detail consistent with the entity's legally adopted budget.

1. Supplementary Information:

a. Combining statements for nonmajor governmental and proprietary funds.

b. Combining statements for internal service funds.

c. Combining statements for fiduciary funds.

d. Budgetary schedules for all nonmajor governmental funds and other major governmental funds with annual appropriated budgets.

e. Fund information for discretely presented component units that do not issue separate financial statements.

f. Schedules.

(1) Schedule of Expenditures of Federal Awards and State Financial Assistance (This schedule is required if the entity expended subrecipient funds, regardless of the amount.) Assistance in the form of loans must separately identify both the federal and state portions.

(2) The following schedules are required, if applicable, whether the county issues a CAFR or not. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments. The following are required schedules:

(a) Schedule of Investments.

(b) Schedule of Changes in Long-Term Notes, Capital Leases, Bonds Payable and other Loans Payable.

(c) 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.

(d) Schedule of Transfers.

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

(f) Schedule of Utility Rate Structure, Number of Customers.

(g) Schedule of Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

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 board of education's funds in the county's report.

Office of Assessor of Property

The audit of the office of assessor of property is not a financial audit. The objective of the audit is to determine if the procedures, used by assessors for performing local assessment functions, are in compliance with laws and regulations. The Division of Property Assessments monitors assessors of property to determine compliance with certain state statutes and regulations. This monitoring should be relied on for reporting noncompliance issues.

The audit of the office of assessor of property does not affect the auditor's report on the county's financial statements or the related reports on compliance and internal control structure. However, the auditor must 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 audit of the office of assessor of property should be directed to the Division of Local Government Audit or the Division of **Property Assessments**.

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. (***GO TO SELECTED LAWS – APPENDIX D***)

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." 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."

In order to fulfill this responsibility to provide a comprehensive uniform accounting system, the Comptroller of the Treasury issued the *Internal Control and Compliance Manual for Tennessee Municipalities*. This manual sets forth guidance for establishing internal control and identifies compliance issues related to state laws and regulations affecting municipalities. The manual is to be used in conjunction with l guidance in the Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, where it does not conflict with guidance in any Manuals issued by the Comptroller's Office.

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. Additional guidelines for the departmental financial statements for municipal boards of education can be found on our website at http://www.comptroller.tn.gov/repository/CA/MG/BOEmemoupdated10-27-06FINAL.pdf

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 a comprehensive annual financial report (CAFR). 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 a CAFR. 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.

1. GASB permits budgetary information to be included as Required Supplementary Information or as basic financial statements for the general fund and each major special revenue fund for which a legally adopted annual budget is required. However, this office requires the detailed legally adopted budgetary information for these funds to be included in the basic financial statements. The auditor's opinion should cover this information. Budgetary information for other major funds would be included in supplemental information (see item 4.d. below).

2. 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 preferred for ALL supplementary information. However, at a minimum the combining, individual fund, and budgetary schedules as well as the utility detail required by items 4.f.(3), (4) and (5) below and the Schedule of Expenditures of Federal

Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

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:
   (Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.208 - 209, for additional details on all combining statements.)

   a. Combining statements for nonmajor governmental and proprietary funds.

   b. Combining statements for internal service funds.

   c. Combining statements for fiduciary funds (trust funds and agency funds). Please note that for agency funds, a combining statement of changes in assets and liabilities is required.

   d. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not included as basic financial statements. (The schedule should include three (3) columns, one for the original budgetary amounts, one for the final budgetary amounts, and one for actual expenditures. An additional column is recommended, though not required, to display variances.)

   e. Fund information for:
      - discretely presented nonmajor component units; and

- major component units for which the note disclosure option is elected, unless a separate audit report is issued.

f. Schedules.

(1) A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

(2) The following schedules are required, if applicable, whether the municipality issues a CAFR or not (except as otherwise noted). Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments.

(a) Schedule of Transfers (may be omitted if transfer disclosure in the notes to the financial statements is adequate, i.e., transfers disclosed by individual fund for all major and nonmajor funds).

(b) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt by individual issue and by Fiscal Year–All Funds). Schedules should also be included for all interfund and intrafund (i.e., between divisions within a utility fund) receivables and payables (e.g., telecommunications, cable, water/sewer, gas, general fund, etc.) Note: Long-term interfund receivables and payables (i.e., interfund loans) must be approved by the Comptroller of the Treasury, Office of State and Local Finance.

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

(d) Utility Rate Structure and Number of Customers.

(e) Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works

Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

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

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

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

(i) 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 combined or separately 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 assets; revenues, expenses, and changes in net assets; 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 *Tennessee Code Annotated* (*TCA*) 7-52-601 et al. unless sufficient detail is presented in the basic financial statements.

[e.g., detailed revenues/expenses including allocated expenses (*TCA* 7-52-603); details of all loans and loan terms (*TCA* 7-52-607); tax equivalent payments (*TCA* 7-52-606)]

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

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.

Please refer to the following web site for current reporting information. (http://www.comptroller.tn.gov/repository/CA/MG/BOEmemoupdated10-27-06FINAL.pdf)

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.

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.

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 capital and operating programs from 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 if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

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

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. (***GO TO SELECTED LAWS – 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.

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 cut-off 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*. Accounting procedures applicable to utility districts are set forth in the *Uniform Accounting Manual for Tennessee Utility Districts* published by the Comptroller of the Treasury. Additional guidelines can be found in the Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book.

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 any combining and individual financial statements, the utility detail required by item 6 below, and 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 direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance

in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

3. 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.

4. Utility Rate Structure and Number of Customers.

5. Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx.

6. If the district provides several utility services 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 assets; revenues, expenses, and changes in net assets; 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.

Public Charter Schools

Background

Public charter schools are authorized to be created by TCA 49-13-101. They can be created for several reasons, as spelled out in TCA 49-14-106. 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 F*** of this manual.

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*.

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 direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

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 TCA ;5-1-113, 5-1-114, 6-33-107, 7-56-105, and 12-9-104;
- joint economic and community development boards, as provided for in TCA 6-54-118,
- public building authorities, as provided for in TCA 12-10-101 et al; and
- industrial development boards, as provided for in TCA 12-9-104.

Such organizations should follow the accounting and reporting guidance established by the Governmental Accounting Standards Board related to a comprehensive annual financial report (CAFR), 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

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 any combining and individual financial statements, the utility detail required by item 4.c. below, and 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 direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements. However, exceptions may be granted on an individual basis, depending on the magnitude of funding and significance to the audit objectives.)

3. 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.

4. 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:

   a. Utility Rate Structure and Number of Customers

   b. Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

   c. If the special purpose government provides several utility services 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 assets; revenues, expenses, and changes in net assets; 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 Utility Management Review Board (UMRB) and the Water and Wastewater Financing Board (WWFB) (TCA 7-82-401(g)(1) and TCA 68-221-1010(a)) for

net losses. However, they are subject to the oversight of the UMRB/WWFB if they have a deficit or are in default on debt.

Limited distribution utilities that do not supply **potable** water are not required to include a water loss schedule in the financial report.

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) that receive funds from the various departments of the State of Tennessee through contractual agreements that establish a 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. Principally, if a nonprofit organization expends $500,000 (see comment on ***page vi of the Introduction, TCA 40-36-303,*** for exception to this) or more of subrecipient funding (or of other funding subject to an audit per a state contract) received from the various departments of the State of Tennessee, the nonprofit will be required to have an audit conducted in accordance with the provisions of *Government Auditing Standards*. This provision applies regardless of the amount of federal funds received from all sources (i.e., directly from the federal government, flow-through funds from the State of Tennessee, Tennessee counties, municipalities, special purpose governments, other nonprofit organizations, etc.).

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.

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. (***STATE DEPARTMENT PHONE NUMBERS***)

Contracts that establish a 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 subrecipient relationship or is otherwise subject to audit. Such contracts should include an audit provision that refers to the current federal audit circular. If there is any doubt regarding the audit requirement for a particular contract, the contracting department should be contacted. (***AUDIT CONSIDERATIONS FOR SUBRECIPIENT FUNDING – APPENDIX C***)

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 if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.) The schedule should include in the receipts and expenditures state passthrough funding, whether it is federal or state dollars. The notes on the schedule should indicate that the funding was passed through to another entity.

SECTION F

REPORTING AND AUDITING REQUIREMENTS INTERNAL SCHOOL FUNDS AND CENTRALIZED 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. The accounting policy manual developed in response to that law refers to "other internal school funds" and has sections which define the three (3) accounting funds that are used: general; restricted; and cafeteria funds. However, what constituted internal school funds was not explicitly stated. 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;

There are four (4) basic types of school systems: county, municipal, charter school systems and special 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 (see ***Appendix C, pages APP.C-1 through APP.C-3***) are contracted for on the contract for the audit of the internal school funds.

ACTIVITY AND CERTAIN OTHER INTERNAL SCHOOL FUNDS

Background

Activity funds and certain other internal school funds are derived from contributions to a school and the fund raising activities of the student body. These activities are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the ***Tennessee Internal School Uniform Accounting Policy Manual***, 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 schools, and special school district systems.

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, as well as the principal and bookkeeper for each school.

Financial Reporting

General

Audit reports for activity funds and certain other internal school funds (excluding noncentralized cafeteria funds) shall conform to the general report outline set forth in Section A. The required statements and schedules for these funds, which are prepared based on an "other comprehensive basis of accounting," are detailed in the ***Tennessee Internal School Uniform Accounting Policy Manual***.

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 direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions.

In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

CAFETERIA FUNDS

Background

Cafeteria funds, also referred to as school food authority funds, are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the *Tennessee Internal School Uniform Accounting Policy Manual, and are accounted for in a fund of the same name*. The same reporting requirements apply to the cafeteria funds of county, city, charter schools, and special school district systems. However, the auditing requirements vary, depending on the type of system (county, city, charter schools, special school district) and whether the system is centralized or noncentralized. A centralized cafeteria system is one in which substantially all of the administrative activities (payroll, accounting, purchasing, etc.) are accounted for and reported by the local board of education. The administrative activities of noncentralized systems are performed at the individual schools.

Financial Reporting

General

Noncentralized Systems (county, city, charter schools, and special school districts)

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 *Tennessee Internal School Uniform Accounting Policy Manual*.

Centralized Systems (County and Special School District)

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 auditor for the school system's internal school funds 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***. 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 (City 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 county, city, charter schools, and special school district systems are required to include a Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***, which exceeds OMB requirements.)

3. Centralized city systems and centralized charter school systems are governed by the requirements established for Municipalities and Charter Schools in this manual. (***MUNICIPAL CAFETERIA PROCEDURES – APPENDIX C)***

SECTION G

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

Department of Intellectual and Developmental Disabilities (DIDD) Medicaid Waiver Contracts

Background

Certain service/vendor contracts executed with DIDD include an audit requirement. This requirement is meant to provide DIDD 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 receiving $500,000 or more in assistance under these DIDD agreements will be required to follow most of the requirements that apply to all other organizations contracting with the Division of Local Government Audit.

Financial Reporting

General

Audit reports for entities receiving **only** DIDD 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 subrecipient funding, the provisions in ***Section E*** related to this schedule should be adhered to.

SECTION H

REPORTING AND AUDITING REQUIREMENTS
TNInvestco Organizations

TNInvestco Organizations

Background

In July 2009, the legislature passed the Tennessee Small Business Investment Company Credit Act (the Act). This Act provided for the certification of partnerships, corporations, trusts or limited liability companies, whether organized on a for-profit or not-for-profit basis, by the Tennessee Department of Economic and Community Development (ECD), which are known as TNInvestco organizations. These organizations were awarded a share of a $200,000,000 original investment tax credit pool, based on the overall strength of an application submitted to ECD. Each TNInvestco is responsible for managing their share of the investment tax credit pool. Prior to making a proposed qualified investment in a specific business, each TNInvestco must request from ECD a written determination that the proposed investment will qualify as a qualified investment in a qualified business or, if applicable, a seed or early stage investment. An annual audit of each TNInvestco is required by the Act. In addition, to promote openness and transparency, a copy of each annual report received shall be posted on the Tennessee TNInvestco web site that is maintained by ECD.

Financial Reporting

General

The financial reports for TNInvestco organizations should be prepared in accordance with generally accepted accounting principles applicable in the United States.

Additional Requirements of the Comptroller's Office and the Department of Economic and Community Development

1. The audit must be conducted in accordance with the provisions of *Government Auditing Standards.*

2. The financial report must include a Schedule of Jobs Created and Retained (***See Appendix A***).

3. The financial report must include a Schedule of Pacing Requirements (***See Appendix A***).

4. For those entities that net the reimbursements and proceeds, an additional schedule showing the detail of the reimbursements and proceeds that would have otherwise been reported as revenues and expenses must be included in the financial report. This schedule must be opined on as supplemental information.

5. 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 required for ALL supplementary information.

SECTION I

REPORTING AND AUDITING REQUIREMENTS PROGRAM SPECIFIC AUDITS

Background

The Comptroller of the Treasury requires that program-specific audits of state funds, when approved, be conducted in accordance with *Government Auditing Standards* (Yellow Book).

Program specific audits of federal funds must be approved by the grantor and the Comptroller's Office. Care needs to be taken to ensure that any additional requirements of the federal granting agency are complied with.

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 Contract to Audit Accounts should reference the option approved in the special provisions section of the Contract to Audit Accounts.

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

Reporting

Option 1

The basic report outline is:

- the independent auditor's report;
- a detailed schedule of revenues and expenditures (expenses);
    - (This schedule can be structured to double as the schedule of expenditures of state/federal awards)
- a schedule of expenditures of federal awards and state financial assistance (if the option in the previous item is not implemented);
- a yellow book report on internal control and compliance and/or an OMB Circular A-133 report on internal control and compliance, as appropriate.

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 assets/net position;
  - operating statement/statement of revenues, expenses/expenditures and changes in net position/net fund assets;
  - statement of cash flows (if applicable);
  - a schedule of expenditures of federal awards and state financial assistance;
- a yellow book report on internal control and compliance
- an OMB Circular A-133 report on internal control and compliance if federal funds are involved.

SECTION J

REPORTING AND AUDITING REQUIREMENTS MEDICAID COST REPORT ENGAGEMENTS

Reporting Requirements and Examination Procedures for Medicaid Cost Report Engagements

Introduction

The Tennessee Department of Finance and Administration is the single state agency responsible for administering the Tennessee nursing facility program which is part of the Tennessee Medical Assistance Program under Title XIX of the Social Security Act. The Centers for Medicare and Medicaid Services, Department of Health and Human Services, specifies certain conditions states must meet to participate in the Title XIX program. One of those conditions is that single state agencies must conduct or contract to conduct examinations of nursing facilities participating in the program. States are given flexibility in determining the scope and extent of the examinations.

The Tennessee Department of Finance and Administration, in meeting its obligation, has contracted with the Tennessee Comptroller of the Treasury to perform the examinations. The department has specified certain procedures for the Comptroller to conduct on the nursing facilities. These procedures are specified in detail in an attachment to the contract between the department and the Comptroller.

Medicaid nursing home examinations are intended to meet the following objectives:

1. The first objective to be attained by performing the examinations is to determine if income, expenses, and statistical information reported on nursing facility cost reports submitted to the Tennessee Comptroller's Office are reasonable, allowable, and in accordance with state and federal rules, regulations, and Medicare principles of reimbursement issued by the Department of Health and Human Services, Centers for Medicare and Medicaid Services.

2. The second objective to be attained is to determine whether resident days reported on the Medicaid Cost Report have been counted in accordance with state regulations and whether Medicaid resident days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.

3. The third objective to be attained is to determine whether charges made to nursing facility residents or residents' personal funds are in compliance with state and federal regulations. The standards under which these examinations are performed include the department's regulations, bulletins, and manuals issued which address the requirements, and the contracts between the state and the participating nursing facilities.

4. The final objective is to make recommendations to correct deficiencies discovered in completing the examination. The department has, in its procedures, also specified that the Comptroller shall include certain background about the nursing facility and shall provide each nursing facility the opportunity to include its comments on the results of the examination in the report. In addition, the department has specified that the Comptroller shall make necessary rate adjustments as a result of the examination. The department is responsible for implementation and enforcement of rate adjustments and collection of monetary refunds from contracting nursing facility providers resulting from the Comptroller's recommendations.

Medicaid Rules and Regulations

The state regulations that govern the administration of the Tennessee Medicaid nursing home program with respect to reimbursement and coverage issues are contained in Chapter 1200-13 of the Rules of the Department of Finance and Administration. Chapter 1200-8-6 contains the nursing home minimum standards that deal with matters such as building standards, safety requirements, and other quality of care rules. Since the nursing home payment methodology is based on Medicare principles of reimbursement, the *Medicare and Medicaid Guide* also serves as a regulatory source. Medicaid nursing home coverage in general is set forth in the Nursing Facility Manuals published by the Department of Finance and Administration. From time to time, the department issues "Medicaid Bulletins" to update providers on policy changes or interpretations of current policy.

Cost Reporting Requirements

Nursing homes are required to submit an annual cost report to the Comptroller's Office. The Level I nursing facility cost report (formerly known as the intermediate care cost report) forms and instructions are contained within Chapter 1200-13 of the state regulations and are due within 90 days of their fiscal year end. The Medicaid Level II nursing facility program (formerly known as the skilled program) uses the Medicare nursing home cost report form and are due within 5 months of their 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 Department's nursing home manual was issued January 1987. Although the manual has not

been revised, a number of Medicaid bulletins have been issued for rule revisions. We have made revisions in the criteria given below where appropriate.

Expenses–Criteria

The cost report footnotes and instructions and the nursing facility Level I accounting principles are the primary source for criteria concerning allowable costs. These documents are found in state rule Chapter 1200-13 and are also available on the Secretary of State's website. If an item is not addressed in the footnotes 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 cost report to the provider's quarterly wage reports. If the wage reports are not available, use the home's payroll records. Variances exceeding 2% should not be written off as immaterial.

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.

    a. Note the employee's title and duties.

    b. Note the percentage of time he or she works.

    c. Determine if that employee is overlapping or duplicating the duties of another employee.

3. Obtain a signed statement from owner-employees or their relatives, stating their duties, percentage of time working, 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.

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 and the accuracy of useful lives.

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

10. Review the adjustments made to section G of the cost report.

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

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

Resident Days–Criteria

The criteria governing resident days are found in Sections 321 through 325.1 of the January 1987 *Intermediate Care Facility Manual.* (Note: Since the last issue of the manual, Intermediate Care (ICF) is now referred to as Level 1 nursing facility care.)

Resident Days–Procedures

1. Trace total resident days from the nursing home census (or resident log) to the cost report.

2. Foot monthly totals.

3. List the monthly totals and compare them to the available days for that month.

4. For any month in which capacity is below 85%, verify if any hospital or therapeutic days have been billed to the program.

5. Selecting the month where the occupancy percentage is closest to 85%, test the census records for proper accumulation.

6. Review the census records for Medicaid residents who were either in the hospital or on therapeutic leave over 10 days. Verify that days over 10 have not been billed to the Medicaid program during any state fiscal year.

7. In the test month, verify the accuracy of admission and discharge dates with the admission records.

8. 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 before noon.

Trust Funds–Criteria

Medicaid recipients who are residents in nursing homes are permitted $50 per month for personal spending needs. The $50 is generally deducted from each recipient's income, and the remainder is applied to room and board charges. State Rule Chapter 1200-8-6 and *Tennessee Code Annotated,* Section 68-11-906 provide rules and regulations governing trust funds. The Nursing Facility Manuals provide guidance on the treatment of resident deposits.

Sections 66-29-101 through 66-29-133, *Tennessee Code Annotated*, govern 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 State Treasurer each year. However, nursing homes may, at their option, elect to hold the funds for the statutory period from the date of last account activity before reporting to the State Treasurer. However, if the nursing home holds the funds for the statutory period, then it 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 State Treasurer.

Generally, residents should not be charged for "covered services." Covered services are items and services included in the per diem rate for all routine services. An exception is permitted when a resident or his or her doctor requests a special brand item not normally stocked by the nursing home.

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 10% of Medicaid trust fund accounts (minimum of 3, maximum of 10), 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 amount of the coverage is adequate to cover the account balance at any point during the period.

Resident Accounts–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.

Form 2362 is initiated periodically by the county Department of Human Services and indicates the amount the resident is to pay toward his or her room and board. A copy is sent to the nursing home and a copy to the Medicaid fiscal agent for data entry.

Testing for extra charges is similar to testing the trust fund for covered services.

Nursing homes should use a separate ledger card for the transactions of a Medicaid Level II facility and for a Medicaid Level I facility.

Resident Accounts–Procedures

1. Select at least two private-pay resident accounts and determine the private room and board amount charged. This information can be used to determine that Medicaid residents are not charged more than private-pay residents for comparable services.

2. Select one Medicaid resident account for every 20 licensed beds (maximum 10) for review. Verify the use of the correct resident liability from Form 2362. Test the ledger entries for six months to determine that the charges, collections, and balances are correct and accurately recorded.

3. Scan all ledger accounts for unrefunded credit balances for only deceased or discharged residents.

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

5. Test the selected accounts for nonallowable extra charges.

Independent Accountant's Report

(Date)

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Darin Gordon, Deputy Commissioner
Bureau 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:

- Income and expenses reported on the "Medicaid Nursing Facility Level 1 Cost Report" 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 Medicaid cost report have been counted in accordance with state regulations. Medicaid resident days billed to the state from _____ through _____, when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.

- Charges to residents and charges to residents' personal funds from _____ through _____, are in accordance with state and federal 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 made in accordance with attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about _____'s compliance with those requirements and performing other such procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on _____'s compliance with specified requirements.

Our examination disclosed the following instances of material noncompliance applicable to state and federal regulations:

- _____

In our opinion, except for the instances of material noncompliance described above, _____complied with, in all material respects, the aforementioned requirements for the income and expenses reported on the Medicaid cost report for the period _____, through _____; resident days for the period _____, through _____; and for resident accounts for the period _____, through_____.

This report is intended solely for the information and use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Deborah V. Loveless, CPA
Director

SECTION K

QUICK REFERENCE LINKS

Audit Manual Web References

Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts

http://www.comptroller.tn.gov/la/pdf/TNECDManual2008.pdf

Allotment (Department) Code Definitions

http://www.comptroller.tn.gov/la/grantcon.asp

CFDA Catalog

https://www.cfda.gov/

Collateral Pool Banks

http://treasury.tn.gov/bank/index.html

Confirmation Contacts and Phone Numbers

http://www.comptroller.tn.gov/la/Confirmations.asp

Contract to Audit Accounts

https://www.comptroller.tn.gov/RA_Upload/

County Chart of Accounts

http://www.comptroller.tn.gov/la/LGSlocalGovernment.asp

Government Auditing Standards (Yellow Book)

http://www.gao.gov/yellowbook

Grantor Agency Contacts /Grantor Information

http://www.comptroller.tn.gov/la/grantcon.asp

OMB Circular A-133 Compliance Supplement and OMB Circulars

http://www.whitehouse.gov/omb/circulars_default/

On-line Confirmations

http://www.comptroller.tn.gov/la/Confirmations.asp

Property Assessments

http://www.comptroller.tn.gov/pa/

State Department Phone Numbers

http://www.comptroller.tn.gov/la/grantcon.asp

Tennessee Code Annotated

http://www.michie.com/

Tennessee Internal School Uniform Accounting Policy Manual

http://tennessee.gov/education/support/doc/July2011TISUAPM.pdf

American Water Works Association – Water Audit (Loss) Software

http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx

Manuals

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

http://www.comptroller.tn.gov/shared/manuals.asp

Local Government Services

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:

http://www.comptroller.tn.gov/la/LGSlocalGovernment.asp

APPENDIX A

EXAMPLE SCHEDULES

Schedule of Unaccounted for Water

For reports submitted January 1, 2013 and later, the American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at:
http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx

AWWA WLCC Free Water Audit Software: Reporting Worksheet

Copyright © 2010, American Water Works Association. All Rights Reserved.

WAS v4.2

Back to Instructions

? Click to access definition

Water Audit Report for: XYZ Government

Reporting Year: 2012 | 7/2011 - 6/2012

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

PLEASE CHOOSE REPORTING UNITS FROM THE INSTRUCTIONS SHEET BEFORE ENTERING DATA

WATER SUPPLIED << Enter grading in column 'E'

Volume from own sources:	?		
Master meter error adjustment (enter positive value):	?		
Water imported:	?		
Water exported:	?		
WATER SUPPLIED:		0.000	

AUTHORIZED CONSUMPTION

Click here: ? for help using option buttons below

			Pcnt:	Value:
Billed metered:	?			
Billed unmetered:	?			
Unbilled metered:	?			
Unbilled unmetered:	?	0.000	1.25%	

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION:	?	0.000

Use buttons to select percentage of water supplied **OR** value

WATER LOSSES (Water Supplied - Authorized Consumption) 0.000

Apparent Losses

			Pcnt:	Value:
Unauthorized consumption:	?	0.000	0.25%	
Customer metering inaccuracies:	?	0.000		
Systematic data handling errors:	?			
Apparent Losses:	?	0.000		

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Enter a percentage less than 10% in the red cell (J42), or select 'Value' option

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	?	0.000
WATER LOSSES:		0.000

NON-REVENUE WATER

NON-REVENUE WATER:	?	0.000

= Total Water Loss + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	?		
Number of active AND inactive service connections:	?		
Connection density:			
Average length of customer service line:	?		(pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?		

COST DATA

Total annual cost of operating water system:	?		$/Year
Customer retail unit cost (applied to Apparent Losses):	?		
Variable production cost (applied to Real Losses):	?		$/

PERFORMANCE INDICATORS

Financial Indicators

Non-revenue water as percent by volume of Water Supplied:	
Non-revenue water as percent by cost of operating system:	
Annual cost of Apparent Losses:	
Annual cost of Real Losses:	

Operational Efficiency Indicators

Apparent Losses per service connection per day:	
Real Losses per service connection per day*:	
Real Losses per length of main per day*:	
Real Losses per service connection per day per meter (head) pressure:	
? Unavoidable Annual Real Losses (UARL):	
From Above, Real Losses = Current Annual Real Losses (CARL):	
? Infrastructure Leakage Index (ILI) [CARL/UARL]:	

* only the most applicable of these two indicators will be calculated

WATER AUDIT DATA VALIDITY SCORE:

Add a grading value for 9 parameter(s) to enable an audit score to be calculated

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Billed metered

2: Customer metering inaccuracies

3: Total annual cost of operating water system

For more information, click here to see the Grading Matrix worksheet

Schedule of Changes in Property Tax Receivable

Town of Anywhere
Schedule of Changes in Property Tax Receivable
June 30, 2013

Tax Year	Property Tax Receivable Balance June 30, 2012	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	**This column is optional)** Allowance for Uncollectibles	Net Receivable Balance June 30, 2013
2013	$ -	$ -	$100,500	$ -	$ -	$ -	$100,500
2012	-	100,000		(500)	(95,000)	(300)	4,200
2011	3,000			(20)	(1,000)	(350)	1,630
2010	2,000				(150)	(300)	1,550
2009	1,000				(325)	(250)	425
2008	800				(250)	(200)	350
2007	600				(100)	(250)	250
2006	400				(200)	(100)	100
2005	300				(90)	(100)	110
2004	200			(50)	(75)	(50)	25
2003	100				(20)	(70)	10
Totals	$8,400	$100,000	$100,500	($570)	($97,210)	($1,970)	$109,150

NOTES: All uncollected taxes for years prior to 200X have been turned over to the Clerk and Master for collection.

Schedule of Expenditures of Federal Awards and State Financial Assistance

FORMAT REQUIRED FOR ORGANIZATIONS OTHER THAN COUNTIES AND COUNTY RELATED ENTITIES

Anytown, Tennessee
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 20XX

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Federal Awards						
US Dept. of Transportation*	20.509	04-37689-5	$ -	$ 400,320.00	$ 400,320.00	$ -
US Dept. of Transportation/TN Dept. of Transportation	20.509	Z9704933	(18,000.21)	480,009.12	490,723.14	(28,714.23)
Total Program 20.509			$ (18,000.21)	$ 880,329.12	$ 891,043.14	$ (28,714.23)
US Dept. of Agriculture/TN Dept. of Agriculture (Note: Noncash Assistance)	10.555	GR9707367	$ 434.82	$ 1,200.44	$ 1,400.93	$ 234.33
US Dept. of Justice	16.580	N/A	-	20,000.00	20,000.00	-
TOTAL FEDERAL AWARDS			$ (17,565.39)	$ 901,529.56	$ 912,444.07	$ (28,479.90)
State Financial Assistance						
TN Dept. of Environment & Conservation	N/A	Z60728725	$ 2,000.00	$ 24,853.19	$ 26,853.19	$ -
TN Dept. of Human Services	N/A	GR6104895	(719.93)	11,818.93	19,584.68	(8,485.68)
TOTAL STATE AWARDS			$ 1,280.07	$ 36,672.12	$ 46,437.87	(8,485.68)
TOTAL FEDERAL & STATE AWARDS			$ (16,285.32)	$ 938,201.68	$ 958,881.94	$ (36,965.58)

***This grant was passed through to a subrecipient, the Clearwater Utility District.**

Loans Outstanding:
Note 1: At June 30, 20XX, there was an outstanding balance of $352,291.07 on a loan obtained in a previous year through the State Revolving Loan Fund. The loan was 80 percent federally funded. Payments during the current fiscal year totaled $23,818.54.

Basis of Presentation:
Note 2: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Anytown under programs of the federal and state governments for the year ended June 30, 20XX. The schedule is presented using the modified accrual basis of accounting.

Schedule of Jobs Created and Retained

Tennessee TNInvestco
Schedule of Jobs Created and Retained
For the Fiscal Year Ended December 31, 2012

Qualified Business	Location	Retained Jobs	Created Jobs	Total Jobs	Women and Minority Employees	Additional Follow on Capital
ABC Health	Nashville	22	4	26	11	$120,000
JKL Markets	Chattanooga	5	2	7	3	-0-
Totals		**27**	**6**	**33**	**14**	**$120,000**

Schedule of Pacing Requirements

Tennessee TNInvestco
Schedule of Pacing Requirements
For the Fiscal Year Ended December 31, 2012

[1]Base Investment Amount - $14M

Qualified Business	Investment Date	[2]Seed/Early Stage Investment	Investment Amount	Liquidity [3]Event	Liquidity Date
New Ventures, LLC	2/1/2010	Y	$ 20,000.00	Y	
			($ 20,000.00)		5/1/2010
Nashville, Inc.	2/4/2010	Y	$ 70,000.00	N	
ABC, Inc.	2/12/2010	Y	$220,000.00	N	
Runway Corporation Inc.	2/12/2010	Y	$100,000.00	N	
Rocket Technologies	5/26/2010	Y	$ 24,122.93	N	
My Vision, Inc.	5/26/2010	Y	$490,000.00	N	
New Science, Inc.	5/26/2010	Y	$425,000.00	N	
Genetics, LLC	10/20/2010	Y	$230,000.00	N	
Infomatics, Inc.	11/1/2010	Y	$500,000.55	N	
Space Age, Inc.	2/23/2011	Y	$255,000.00	N	
New Med, Inc.	3/31/2011	Y	$ 77,500.00	N	
Atom Splice, Inc.	5/16/2011	Y	$500,000.00	N	
New Vision, Inc.	6/21/2011	Y	$255,000.00	N	
Science Interactive, Inc.	8/5/2011	Y	$200,000.00	N	
Medicine Pathway	8/19/2011	Y	$750,000.00	N	
Medical Device, Inc.	9/16/2011	Y	$100,000.00	N	
Info Tech, LLC	11/15/2011	Y	$750,000.00	N	
	Totals		[4]**$4,946,624.48**		

Seed & Early Stage Credit	**$2,100,000.00**
Total Credit Towards Threshold	**$7,046,624.48**

Within two (2) years after the allocation date, a qualified TNInvestco shall have invested an amount equal to at least fifty percent (50%) of its base investment amount in qualified investments

Calculation: 50% of $14M = $7M threshold

[1] Per TCA 4-28-102(4) the base investment amount is $14M for each TNInvestco to calculate the investment thresholds.

[2] Per TCA 4-28-102 (15) "Seed or early stage investment" means an investment in a company that has a product or service in testing or pilot production that may or may not be commercially available. The company may or may not be generating revenues and may have been in business less than three (3) years at the time of investment

[3] A liquidity event is defined as the sale of an investment. The sale of an investment reduces the amount of investment funds that count towards the pacing requirements

[4] Of the $4.9M in actual dollars invested in this example, the company has invested $1,050,000 in approved seed or early stage qualified businesses

APPENDIX B

CURRENT DEVELOPMENTS AND OTHER MATTERS

Audits of Group Financial Statements

The contract to audit accounts has been modified to address certain requirements related to auditing requirements in the *Codification of Statements on Auditing Standards*, Section AU-C 600. 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.

For those independent public accounting firms that are acting as the auditor of group financial statements, similar matters will need to be addressed with the component auditors separately from the contract to audit accounts. Such communications may or may not be included by reference in the contract to audit accounts. The audit requirements are significant and complex, and care should be taken to ensure that audit documentation and communications address all matters related to such audits. Component auditors may be required to adjust audit procedures and the release date included in the contract to audit accounts to coordinate with the group auditor. (See item 12 below for additional summary information.)

Auditor's Reports

All auditor's reports (opinion and internal control and compliance reports) have been modified. Auditors should ensure that all reports are updated accordingly.

Solid Waste Accounting

Laws governing the reporting requirements for solid waste funds have been changed. A copy of the revised state statute can be accessed at http://state.tn.us/sos/acts/108/pub/pc0049.pdf .
.

Change in Water Loss Reporting Schedule

As of January 1, 2013, the water loss reporting schedule must comply with the requirements of the American Water Works Association. Additional information regarding this schedule can be found in Sections ***B***, ***C*** and ***D*** of this manual. An example report is included in ***Appendix A***.

Summary of Changes in Auditing and Reporting Requirements

1. GASB 60, *Service Concession Arrangements*

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility. For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement improve financial reporting by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. It alleviates the confusion that arises when determining what guidance should be applied in complex circumstances that are not specifically addressed by existing standards. This Statement contributes to the assessment of interperiod equity by reporting up-front payments or the present value of installment payments primarily as deferred inflows of resources, reflecting the acquisition

of resources that are applicable to a future reporting period. The provisions of this Statement result in a faithful representation of a governmental operator's rights under SCAs by reporting rights to access SCA facilities as intangible assets. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

2. GASB 61, *Financial Reporting Entity: Omnibus*

The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity.

The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to

exclude.

The amendments to the criteria for blending improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic. For primary governments that are business-type activities reporting in a single column, the guidance for reporting blended component units allows users to better distinguish between the primary government and its component units by requiring condensed combining information to be included in the notes to the financial statements.

Lastly, the requirements for reporting equity interests in component units help ensure that primary government financial statements do not understate their financial position and provide for more consistent and understandable display of those equity interests.

3. GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Organization of This Statement

The provisions of this Statement are organized by topic. Each topic contains provisions derived from FASB and AICPA pronouncements that address the subject matter. The order in which the topics are presented corresponds to the order of the primary locations within

the GASB *Codification of Governmental Accounting and Financial Reporting Standards*, where the topics are codified.

How the Changes in This Statement Will Improve Financial Reporting

The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. This effort brings the authoritative accounting and financial reporting literature together in one place, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments.

In addition, all FASB and AICPA pronouncements became nonauthoritative literature for the private sector on July 1, 2009, the effective date of the *FASB Accounting Standards Codification*™. Although certain FASB and AICPA pronouncements are still available in the archive section of the FASB's Codification on a limited basis, this Statement will make accessible in the GASB's authoritative literature all applicable accounting and financial reporting guidance previously residing only in the FASB and AICPA pronouncements.

4. GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

5. GASB Comprehensive Implementation Guide (CIG) – 2012-2013 is available within Checkpoint.

6. AICPA SAS 121, *Revised Applicability of SAS 100, Interim Financial Information*

7. AICPA SAS 122, *Clarification and Recodification*
   This statement contains the *Preface to* Codification of Statements on Auditing Standards, *Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and 39 clarified SASs. This statement recodifies and supersedes all outstanding SASs through No. 121 except

   - SAS 51, *Reporting on Financial Statements Prepared for Use in Other Countries*;
   - SAS 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended;
   - SAS 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*;
   - SAS 87, *Restricting the Use of an Auditor's Report*;
   - the following clarified SASs that were issued to address practice issues timely and are already effective:

   - SAS 117, *Compliance Audits* (issued December 2009);
   - SAS 118, *Other Information in Documents Containing Audited Financial Statements* (issued February 2010);
   - SAS 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (issued February 2010); and
   - SAS 120, *Required Supplementary Information* (issued February 2010).

   This statement also withdraws SAS 26, *Association With Financial Statements*, as amended. This statement contains "AU-C" section numbers instead of "AU" section numbers. "AU-C" is a temporary identifier to avoid confusion with references to existing "AU" sections, which remain effective through 2013, in AICPA *Professional Standards*. The "AU-C" identifier will revert to "AU" in 2014, by which time this statement becomes fully effective for all engagements.

   This statement recodifies the AU section numbers as designated by SAS 1–121. AU-C section numbers for clarified SASs based on equivalent ISAs are the same as the equivalent ISA numbers. AU-C section numbers for clarified SASs with no equivalent ISAs have been assigned new numbers. The ASB believes that this recodification structure will aid firms and practitioners that use both ISAs and generally accepted auditing standards. The exhibit, "List of AU-C Sections Designated by Statement on Auditing Standards 122, *Statements on Auditing Standards: Clarification and Recodification*, Cross Referenced to List of AU Sections in AICPA *Professional Standards*," to this statement contains a complete two-part cross-reference listing of AU-C and AU section numbers as designated by this statement.

   This statement is effective for audits of financial statements for periods ending on or after December 15, 2012. Refer to individual AU-C sections for specific effective date language.

This statement is a stand-alone SAS and is not a codification of all clarified SASs. This statement has been codified in AICPA *Professional Standards*, which contains a complete codification of the Statements on Auditing Standards. Practitioners are advised to use the codified version of this SAS as they prepare to evaluate and update their audit methodologies, and prepare for changes precipitated by the clarity project.

8. AICPA SAS 123, *Omnibus Statement on Auditing Standards – 2011*
   This statement contains amendments to SASs 117–118 and SAS 122, AU-C sections

   - 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
   - 230, *Audit Documentation*
   - 260, *The Auditor's Communication With Those Charged With Governance*
   - 705, *Modifications to the Opinion in the Independent Auditor's Report*
   - 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*

   These amendments conform SASs 117–118 to SAS 122 and address other changes necessitated by the Clarity Project. These amendments, which have been issued in this statement to aid transparency in following the disposition of the amendments proposed in the exposure draft of this SAS, have been codified in AICPA *Professional Standards*, which contains a complete codification of the SASs. Practitioners are advised to use the codified version of this SAS as they prepare to evaluate and update their audit methodologies, and prepare for changes precipitated by the clarity project.

   This statement is effective for audits of financial statements for periods ending on or after December 15, 2012. Refer to individual amendments for specific effective date language.

9. SAS 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*
   SAS 124 supersedes the requirements and guidance in SAS 51, *Reporting on Financial Statements Prepared for Use in Another Country*, and redrafts that statement to apply the ASB's established clarity drafting conventions. This statement requires the auditor, in instances where a report that is to be used in the United States was prepared in accordance with a financial reporting framework generally accepted in another country, to include an emphasis-of-matter paragraph to highlight the foreign financial reporting framework, but permits the auditor to express an unqualified opinion. This statement has been codified in AICPA *Professional Standards*, which contains a complete codification of the Statements on Auditing Standards. Practitioners are advised to use the codified version of this SAS as they prepare to evaluate and update their audit methodologies, and prepare for changes precipitated by the clarity project.

   This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

10. AICPA SAS 125, *Alert That Restricts the Use of the Auditor's Written Communication*

As a result of its Clarity Project, the ASB has issued SAS 125 to

- supersede SAS 87, *Restricting the Use of an Auditor's Report* (AICPA, Professional Standards, AU sec. 532 and AU-C sec. 905), and
- amend the following SASs:
  - SAS 117, *Compliance Audits*, as amended (AICPA, Professional Standards, AU-C sec. 935)
  - SAS 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, Professional Standards, AU-C sec. 725)
  - SAS 122 section 260, *The Auditor's Communication With Those Charged With Governance*, as amended (AICPA, Professional Standards, AU-C sec. 260)
  - SAS No. 122 section 265, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, Professional Standards, AU-C sec. 265)
  - SAS 122 section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks AICPA*, Professional Standards, AU-C sec. 800)
  - SAS 122 section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (AICPA, Professional Standards, AU-C sec. 806)
  - SAS 122 section 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*, as amended (AICPA, Professional Standards, AU-C sec. 915)
  - SAS 122 section 920, *Letters for Underwriters and Certain Other Requesting Parties* (AICPA, Professional Standards, AU-C sec. 920)

SAS 125 addresses the auditor's responsibility, when required or the auditor decides, to include in the auditor's report or other written communication issued by the auditor in connection with an engagement conducted in accordance with GAAS language that restricts the use of the auditor's written communication. In an auditor's report, such language is included in an other-matter paragraph. The significant changes from existing standards as a result of the issuance of SAS 125 are:

- SAS 125 establishes an umbrella requirement to include an alert that restricts the use of the auditor's written communication when the subject matter of that communication is based on
  - measurement or disclosure criteria that are determined by the auditor to be suitable only for a limited number of users who can be presumed to have an adequate understanding of the criteria,
  - measurement or disclosure criteria that are available only to the specified parties, or
  - matters identified by the auditor during the course of the audit engagement when the identification of such matters is not the primary objective of the audit engagement (commonly referred to as a by-product report).

- The alert language, which states that the communication is intended solely for the information and use of the specified parties, is consistent with AU section 532 and AU-C section 905, except when the engagement is also performed in accordance

with Government Auditing Standards, and the written communication pursuant to that engagement is issued in accordance with AU-C section 265, AU-C section 806, or AU-C section 935. In this circumstance, the alert language describes the purpose of the communication and states that the communication is not suitable for any other purpose. No specified parties are identified in this type of alert.

- SAS 125 also modifies the guidance pertaining to single combined reports covering both (a) communications that are required to include an alert restricting its use and (b) communications that are for general use, which do not ordinarily include such an alert. AU section 532 and AU-C section 905 states that if an auditor issues a single combined report, the use of the single combined report should be restricted to the specified parties. SAS 125, however, indicates that the alert that restricts the use of the written communication pertains only to the communications required to include such an alert. Accordingly, the intended use of the communications that are for general use is not affected by this alert.

  AU section 532 and AU-C section 905 requires the auditor to consider informing his or her client that restricted use reports are not intended for distribution to nonspecified parties. SAS No. 125 does not include a comparable requirement and makes clear that an auditor is not responsible for controlling, and cannot control, distribution of the auditor's written communication after its release. The alert is designed to avoid misunderstandings related to the use of the written communication, particularly when taken out of the context in which it is intended to be used. An auditor may consider informing the entity or other specified parties that the written communication is not intended for distribution to parties other than those specified in the written communication.

11. SAS 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted)

    As a result of its Clarity Project, the ASB has issued SAS 126 to supersede SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended (AICPA, Professional Standards, AU sec. 341 and AU-C sec. 570). SAS No. 126 does not change or expand SAS No. 59, as amended, in any significant respect. The ASB has moved forward with the clarity redraft of SAS No. 59, as amended, so that it is consistent with the format of the other clarified SASs that were recently issued as SASs 122, 124, and 125.

    However, the ASB decided to delay convergence with International Standard on Auditing 570, Going Concern, pending the Financial Accounting Standards Board's (FASB) anticipated development of accounting guidance addressing going concern. FASB issued an exposure draft, Going Concern, in October 2008 but, based on recent decisions, FASB has divided the project into two separate and distinct phases. The FASB issued an exposure draft that addresses Phase 1, "The Liquidation Basis of Accounting," on July 2, 2012, and

the FASB's Current Technical Plan and Project Updates web page projects reissuance of an exposure draft that addresses Phase II, "Going Concern," in the fourth quarter of 2012.

SAS 126 addresses the auditor's responsibilities in an audit of financial statements with respect to evaluating whether there is substantial doubt about the entity's ability to continue as a going concern. This SAS applies to all audits of financial statements regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework. This SAS does not apply to an audit of financial statements based on the assumption of liquidation (for example, when [a] an entity is in the process of liquidation, [b] the owners have decided to commence dissolution or liquidation, or [c] legal proceedings, including bankruptcy, have reached a point at which dissolution or liquidation is probable).

12. SAS 127, *Omnibus Statement on Auditing Standards—2013*

Amendments to SAS 122 Section 600

Paragraph .25a of SAS 122 section 600, "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)" (AICPA, Professional Standards), precludes making reference to the audit of a component auditor in the auditor's report on the group financial statements unless the component's financial statements are prepared using the same financial reporting framework as that used for the group financial statements. These amendments permit making reference to the audit of a component auditor in the auditor's report on the group financial statements when the component's financial statements are prepared using a different financial reporting framework than that used for the group financial statements, if certain conditions are met. The amendments also add a requirement, when reference is made to a component auditor's report on financial statements prepared using a different financial reporting framework, for the auditor's report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group. The amendments also add application material that addresses making reference when the financial reporting frameworks differ.

Paragraph .25b of SAS 122 section 600 precludes making reference to the audit of a component auditor in the auditor's report on the group financial statements unless the component auditor has performed an audit that meets the relevant requirements of generally accepted auditing standards (GAAS). Paragraph .A54 of SAS 122 section 600 provides guidance on how the group engagement partner may determine that the audit performed by the component auditor meets the relevant requirements of GAAS. These amendments clarify that requirement and add additional guidance regarding that determination. The amendments also add a requirement that when the auditor of the group financial statements is making reference to the audit of a component auditor and has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS, the auditor's report on the group financial statements should indicate the set of auditing standards used by the component auditor and

that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS.

These amendments also clarify that the group engagement team is required to determine component materiality for those components on which the group engagement team will assume responsibility for the work of a component auditor who performs an audit or a review.

Amendments to SAS 122 Section 800

SAS 122 section 800, "Special Considerations: Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks," introduced the term special purpose framework, which is a cash, tax, regulatory, or contractual basis of accounting. These amendments add an other basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements to the bases of accounting defined as special purpose frameworks.

Effective Dates

The amendments to SAS 122 section 600 are effective for audits of group financial statements for periods ending on or after December 15, 2012. The amendments to SAS 122 section 800 are effective for audits of financial statements for periods ending on or after December 15, 2012.

13. OMB *Circular A-133*, 2013 Compliance Supplement

    The OMB A-133 2013 Compliance Supplement will supersede the OMB Circular A-133 Compliance Supplement issued in June 2012. **The 2013 Compliance Supplement should be available by the end of June.** Continue to check the site at http://www.whitehouse.gov/omb/circulars_default/.

14. *Government Auditing Standards* (i.e., Yellow Book) issued by the Government Accountability Office (GAO)

    The 2011 revision of Government Auditing Standards supersedes the 2007 revision. The 2011 revision should be used by government auditors until further updates and revisions are made. An electronic version of this document can be accessed on GAO's Yellow Book Web page at http://www.gao.gov/yellowbook. The 2011 revision of Government Auditing Standards is effective for financial audits and attestation engagements for periods ending on or after December 15, 2012, and for performance audits beginning on or after December 15, 2011.

15. Standards effective in future years:

    - June 30, 2014 and June 30, 2015

- GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
  Effective Date: The provisions of Statement 70 are effective for financial statements for reporting beginning after June 15, 2013. Earlier application is encouraged.

- GASB 69, *Government Combinations and Disposals of Government Operations*
  Effective Date: The provisions of Statement 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Early application is encouraged.

- GASB 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27

  Effective Date: The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

  Note: During the production process, an incorrect cross-reference was inadvertently introduced into paragraph 134 of Statement 68, which addresses circumstances in which a nonemployer entity's legal obligation for contributions directly to a defined contribution plan does not meet the definition of a special funding situation. In paragraph 134, the cross-reference should be to paragraphs 127 and 128. The document now available for download (as of August 6, 2012) and the soon to be released printed document include the correct cross-reference.

- GASB 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25

  Effective Date: The provisions of Statement 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

- GASB 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*

  Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

- GASB 65, *Items Previously Reported as Assets and Liabilities*
  Effective Date: The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

APPENDIX C

AUDIT PROCEDURES

1. County 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 and special school districts that are audited by the Division of Local Government Audit. These additional procedures must be performed by the certified public accountant who has contracted to audit the activity funds of an applicable special school district or 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 no later than December 31 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. On a sample basis, foot and extend daily collection reports, if the reports are prepared manually. Investigate any differences noted.

5. 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.

6. Review frequency of bank deposits, and 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.

7. 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.

8. 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.

9. 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.)

10. 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

11. 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.

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

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. Municipal and Charter School Cafeteria Procedures

Procedures for Centralized Municipal Systems and Charter School Systems

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

3. Audit Considerations - State of Tennessee Subrecipient Contracts

State Subrecipient Contracts

In auditing subrecipient funds received from the State of Tennessee that are subject to audit, the auditor should become familiar with the program and the related requirements of the state department funding the program. The following list represents points of interest the auditor should consider in preparing the audit program for state subrecipient funds.

1. Program funds (subrecipient contracts, loans, commodities, etc.) received from the state may include both state and federal dollars. The federal portion does not lose its identity simply because it flows through the state; therefore, federal funds should be audited in accordance with the applicable OMB requirements.

2. A portion of state dollars disbursed may represent matching funds. These funds are governed by the same requirements as the related federal program.

3. In-kind contributions may or may not be allowable as the entity's matching share for a program.

4. Calculations for determining matching shares may vary between contracts, and different rates for different cost categories may be applicable for a single contract.

5. Indirect cost allocation plans must be approved by the grantor.

6. Most subrecipient agreements require the entity's accounting system to provide for separate and identifiable account balances for each contract with subsidiary ledgers for each project within a contract. Grantor reports should agree with these accounts.

7. One entity may apply for subrecipient funds, but another entity may ultimately use the funds (pass-through funds). The entity that applies for the funds is responsible for ensuring the funds are used in compliance with grantor guidelines. The entity should report these funds in accordance with applicable accounting guidelines.

8. Certain program revenue information can be obtained on the web at:

   http://www.comptroller.tn.gov/la/Confirmations.asp

   Additional information may be confirmed directly with each grantor. A list of the telephone numbers of the state departments that most frequently administer subrecipient funding can be found on the internet. (***GRANTOR INFORMATION***) The auditor should request confirmation not only of the amount of advances, subrecipient funds received, and the year-end receivable balance, but also the appropriate *Catalog of Federal Domestic Assistance*

(*CFDA*) number, the amount of federal and state funds involved, program guidelines, and requirements.

9. The following compliance attributes should be considered for each subrecipient expenditure item in the audit sample and for each subrecipient contract in the sample of subrecipient contracts selected for specific compliance testing.

   (a) Are expenditures necessary and reasonable for the proper administration of the contract?

   (b) Do expenditures conform to limitations or exclusions in the contract?

   (c) Was consistent accounting treatment applied for expenditures of all the recipient's activities?

   (d) Were expenditures net of applicable credits?

   (e) Were costs correctly allocated to a particular award?

   (f) Were expenditures correctly recorded and supported by source documentation?

   (g) Were expenditures approved in advance, if subject to prior approval?

   (h) Were expenditures in accordance with competitive purchasing procedures, if applicable?

   (i) Were expenditures allocated equitably to contracts and other activities in accordance with the relative benefits received?

APPENDIX D

LAWS AND REGULATIONS

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 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 do not necessarily represent the most significant laws, but represent areas in which recurring questions have arisen.

Selected Tennessee Code Annotated references for Counties

Audits

Section 4-3-301 - 304	General audit requirement
Section 8-4-109	Audits of governmental entities, Comptroller authorized
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

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 39-16-501	Definitions for interference with government operations
Section 39-16-504	Destruction of and tampering with governmental records
Section 40-15-105(a) and 40-35-313(a)	Public officials and appointed officials ineligible for pretrial diversion or probation for criminal offences 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 5-8-505 & 67-5-1902	County officials are to file an annual financial report. Fiscal year end requirement of June 30
Section 9-2-138	Administrative officers are required to reconcile the fund accounts with the trustee's cash balance

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 (***GO TO DETAILED REGULATONS – APP.D-7***)
Section 5-9-401	The County Commission must appropriate all funds
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 5-21-101	Financial Management System of 1981
Section 12-2-501	Negotiated sale of surplus property
Section 12-3-219	Competitive Reverse Auction Process
Section 12-3-1001	Purchasing under state contracts
Section 12-3-1003	Purchasing used/second-hand goods from private individuals
Section 12-3-1004	Purchasing through another county
Section 12-3-1006	Purchasing at public auctions
Section 12-3-1008	National / Regional Cooperative Purchasing Agreements
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-106	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 $25,000

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

Statutory Bonds

Section 5-6-109	Bond of County Executive
Section 8-8-103	Bond of Sheriff
Section 8-11-103	Bond of Trustee
Section 8-13-103	Bond of Register
Section 8-19-102	Bonds to be filed with Comptroller's Office
Section 8-19-103	Bonds to be recorded in the Register's Office
Section 8-19-106	County to pay the premiums on the official's bonds
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

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 9-2-103	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

County Officials (continued)

Section 8-21-101	Clerks and county officials deprived of fees when salaries are paid by the county
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

Clerks of Courts (also see County Officials)

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
Section 18-6-108	Probate of instruments
Section 20-12-141	Payments to clerks – costs

Debt

Section 7-51-901	County Commission approval required for all leases
Section 7-51-904	Installment purchase contract requirements
Section 9-21 et seq.	Debt – bonds, notes, loans

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

Sheriff and Drug Control Funds (continued)

Section 39-11-116	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 issued 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
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 67-5-1804	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 67-5-2004	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 67-5-1806	County barred from collecting delinquent property taxes after 10 years
Section 67-6-712	At least 50 percent of the local option sales tax must be used for school purposes

Taxes (continued)

Section 67-6-712	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 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 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.)
Section 49-3- et seq	School debt issues
Section 49-3-351	BEP Formula
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 49-6-2003	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 49-13-101et seq	Charter Schools

Other

Section 8-44-101	Sunshine Law – Policy
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized. (***GO TO SUMMARY – APP.D-8***)
Section 10-7-503	Records open to public inspection
Section 68-211-874	Landfills must be accounted for in an enterprise fund. Other solid waste activities may be accounted for in either an enterprise fund or a special revenue fund.
Section 68-221-1012	Reporting water loss to the Water and Wastewater Financing Board

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 provide 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 of its business affairs and transactions.

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 *TCA* 9-21-130, the revised Guidelines are 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 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: http://www.comptroller.tn.gov/sl/lfstfundbd.asp .

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 6-54-903	Travel Policies – Filing Requirements
Section 6-56-201	Municipal budget law of 1982
Section 8-44-104	Minutes required, open for public inspection
Section 9-2-102	Uniform accounting system
Section 9-2-103 – 104	Consecutively prenumbered receipts required
Section 9-2-106	Violation of receipt requirements is a Class C misdemeanor
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
Section 68-221-1012	Reporting water loss

Audits

Section 6-56-105	Audits of municipalities
Section 8-4-109	Audits of governmental entities, Comptroller authorized
Section 8-4-115	Audit of Standardized Booking Procedures
Section 9-3-212	Duty to order and pay for audits
Section 9-3-405	Audit Committees
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)

Taxes

Section 6-55-101	Collection and payment of tax
Section 6-55-201	Sale of real estate for delinquency
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 67-5-2005	Delinquent municipal real property tax certified to county trustees
Section 67-5-2404	Delivery of delinquent tax list to attorney

Purchasing

Section 6-54-107	Officers' interest in municipal contracts prohibited
Section 6-56-301	Municipal purchasing law
Section 12-2-407	Sale of surplus property to governmental entities and not-for-profit corporations
Section 12-3-1001	Purchases for local governmental units (by department of general services)
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-106	Contracts 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 9-1-107	Investments–deposits exceeding insurance limits
Section 9-4-101	Collateral

Debt

Section 9-21-408	Interfund loans
Section 9-21-601	Capital outlay notes
Section 9-21-903	Refunding bond issues

Disbursements

Section 6-54-111	Appropriation of funds for nonprofit organizations (***GO TO LAW SUMMARY – APP.D-13***)
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 and Unaccounted for Water

Section 68-221-1010	Report filed with Water and Wastewater Financing Board
Section 68-221-1012	Unaccounted for water

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 7-35-401	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 7-39-404, 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	Fines and forfeitures–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 40-35-313	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
Section 55-10-204	Illegal cancellation of traffic citations
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)

Police and City Courts (continued)

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 39-16-501	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
Section 8-44-101	Sunshine Law – Policy
Section 6-51-121	Recording of annexation ordinance or resolution by annexing municipality
Section 6-56-401 et al	Municipal Finance Officer Certification and Education Act of 2007
Section 8-44-102	Open meetings
Section 8-44-103	Notice of public meetings
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized. (***GO TO SUMMARY – APP.D-8***)
Section 10-7-503	Records open to public inspection
Sections 6-54-107 & 12-4-101	Conflict of interest
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 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 year-round 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 year-round 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 receiving financial assistance from the municipality file with the disbursing official of the municipality a copy of an annual audit of its business affairs and transactions and the proposed use of the contributed funds.

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.

6. Selected State Laws Affecting Utility Districts

Utility districts 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 utility districts 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 Utility Districts

Commissioners

Section 7-82-307	Vacancies
Section 7-82-308	Compensation
Section 7-82-308	Qualifications
Section 7-82-602	Number of commissioners

Debt

Section 7-82-501	Issuance of bonds or notes: review by director of local finance
Sections 7-82-501–507	Bonds and notes

Financial Distress/Unaccounted for Water Loss

Section 7-82-401	Accounting manual
Sections 7-82-701–706	Utility Management Review Board
Section 7-82-401(h) & 68-221-1012(b)	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

Other

Section 7-82-113	Expenditures must be for a lawful district purpose
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 12-4-101	Conflict of interest
Section 62-2-107	Employment of licensees in public works
Section 66-29-101	Unclaimed property
Section 68-221-904	Operators–certified

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit

2013

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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 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 your entity'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, etc.)

B. Financial Section

1. Independent Auditor's Report on the Financial Statements

   a. The report should be either (1) unqualified, (2) qualified, (3) disclaimer, or (4) adverse. The report should detail why an unqualified 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 OMB Circular A-133 (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 following items should be included:

    a. The findings.

b. Recommendations for improvement.

c. Comments on corrective action planned.

d. Concurrence or nonconcurrence of appropriate official with the audit finding.

e. Comments on the disposition of prior year findings.

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 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 field work 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 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 both the most recent external quality control review report and letter of comment 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 important is cost in making a decision?

Section 12-4-106, *Tennessee Code Annotated*—Contracts for professional services

> Contracts by counties, cities, metropolitan governments, towns, utility districts and other municipal and public corporations of the state, for legal services, fiscal agent, financial advisor or advisory services, educational consultant services, and similar services by professional persons or groups of high ethical standards, shall not be based upon competitive bids, but shall be awarded on the basis of recognized competence and integrity. The prohibition against competitive bidding in this section shall not prohibit any entity enumerated from interviewing eligible persons or groups to determine the capabilities of such persons or groups.

6. How is the auditor selected?

The State Attorney General, in an opinion dated March 7, 1985, stated that governmental units are prohibited by statute from awarding [audit] contracts on the basis of competitive bidding. In

a letter to the Comptroller of the Treasury, dated April 23, 1985, the Attorney General clarified this opinion as follows:

> Nothing in *Tennessee Code Annotated* Section 12-4-106 prohibits a governmental entity from requesting proposals from accounting firms for the audit function and to consider price as one factor among others in determining what accounting firm to hire. However, it should be made very clear to firms submitting proposals that cost is only one factor and that the contract will not necessarily be awarded to the lowest in cost.

Our office recommends that all organizations use a Request for Proposal (RFP) as a basis for awarding a contract to audit. (See pages 7 -10 for a Proposal format.)

The cost is only one factor to be considered in awarding a contract to audit. Accordingly, such a contract may or may not be awarded to the low bidder.

Some factors to be considered in awarding a contract are (1) extent and quality of the governmental auditing experience of the firm, (2) the experience of those who would be assigned the actual work, (3) the ability of the auditor to meet the work schedule, and (4) the proposed cost.

The evaluation factors enumerated above and expanded on page 17 are some of those recommended for evaluation. The local government's representatives should not feel constrained about limiting the evaluation factors to those listed in the publication, but the factors to be evaluated should be relevant to the audit and to the audit firm's ability to respond.

7. Auditor Rotation

The Comptroller's Office encourages auditor rotation when a government engages a CPA firm to perform the annual audit. Auditor rotation can be effective only if a government has access to a sufficient number of interested and qualified firms. While we recognize there are statutory requirements for annual audits of governmental units in Tennessee, governments audited by CPA firms are encouraged to participate in an aggressive procurement process that promotes competition from all qualified firms, including the current audit firm.

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) on or after the prescribed date of June 30, 2008; 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. 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 the ***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. A sample copy of the most current version of the contract can be obtained at the following web address: http://www.comptroller.tn.gov/la/pdf/20120816ContractToAuditAccountsSampleFillin6-11-2012Final.pdf.

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 fixed assets acquired during the year.
- A list of principal revenue sources.

- A list of accounts receivable and payable.
- A list of insurance in force.
- Grant applications and regulations (grant contract numbers, federal CFDA numbers).
- Bank accounts
- Investments.
- A list of grantors.
- Bond and note information.
- Minutes of the board meetings.

12. Where can additional information be obtained?

References

State of Tennessee, Department of Audit–*Audit Manual*

American Institute of Certified Public Accountants (AICPA), *Audits of State and Local Governments*.

OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

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.

REQUEST FOR PROPOSAL
Financial and Compliance Audit
_____(Local government)
_____(Date)

Purpose

_____ has issued this request for proposals 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.

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 U.S. Office of Management and Budget (OMB) Circular A-133 and any other 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 therefore, 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: *Audits of State and Local Governmental,* 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 material matters not also 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 three 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 expressed 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 12 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 _____.

Proposal Format

The proposal 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.

Submittal Information

Proposals shall be submitted no later than _____, to:

_____
_____
_____
_____

Opening of Proposals

All proposals will be opened at the regular meeting of those charged with governance to be held on _____ or at a later time and date as specified below.

Time: _____
Date: _____
Place: _____

Reservation of Right

The local government reserves the right to reject any or all proposals, 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.

Cost Factors

Although cost is a significant factor, it should not be the dominant factor. Cost should be given more importance when all the other evaluation criteria are relatively equal.

If there is reason to believe that an unreasonably low proposal has been made, it should be rejected. One method of measuring reasonableness is to divide the proposed cost by a reasonable average hourly rate to show hours of effort that might be expected. (Refer to page 18 for an example of a proposal evaluation method).

EXAMPLE OF A PROPOSAL EVALUATION METHOD

The following is an example of a method of evaluating proposals. 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 70 points) to the points received for the cost of the audit (maximum of 30 points). The total score will be determined by the following formula:

$$\frac{\text{Technical score for this firm}}{\text{Highest technical score received}} \times 70 = \text{Technical score}$$

$$\frac{\text{Lowest cost of all bids}}{\text{Costs of bid for this firm}} \times 30 = \text{Cost score}$$

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.

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.)	0-20
2. Organization size and structure of firm.	0-5
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	0-20
(b) Overall supervision to be exercised over audit team by firm's management	0-5
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	0-15
(b) Realistic time estimates of program section	0-5
Technical points	0-70
5. Cost of the audit.	0-30
Maximum points	100