



DEPARTMENT OF AUDIT

2015 Annual Report



Justin P. Wilson,
Comptroller





Comptroller of the Treasury
Justin P. Wilson

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Justin P. Wilson
Comptroller

December 31, 2015

The Honorable Bill Haslam, Governor
The Honorable Ron Ramsey, Speaker of the Senate
The Honorable Beth Harwell, Speaker of the House of Representatives, and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

The 2015 annual report of the Department of Audit is submitted herewith in accordance with Section 4-3-304, *Tennessee Code Annotated*.

The Department of Audit conducts audits or ensures that audits are conducted of state, county, and municipal governments; utility districts; internal school funds; and other local government authorities and agencies. Audits are also performed of state grants to nongovernmental organizations and of numerous federal programs for state and local governments.

In submitting this report, I would like to express my appreciation to all those who made possible the results reported, particularly the members of the General Assembly and the staff of this office.

Respectfully submitted,

Justin P. Wilson
Comptroller of the Treasury

JPW/ab



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Department of Audit

2015 Annual Report

The General Assembly created the Department of Audit in 1937. The authority to audit state, county, municipal and other local governmental entities as well as recipients of grant funds is established in *Tennessee Code Annotated*. The department is required to:

- perform currently a post-audit of all accounts and other financial records of the state . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .
- make annually, and at such other times as the general assembly shall require, a complete report on the post-audit . . .
- 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, . . .
- 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 . . .
- make annually an audit of all the records of the several counties of the state . . .
- perform economy and efficiency audits, program results audits and program evaluations . . .
- 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 . . . with standards established by the comptroller . . .
- 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 . . .
- 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 . . .
- ensure that the audits of municipalities, utility districts, emergency communications districts, internal school funds, charter schools, public housing authorities, human resource agencies, development districts, and other special purpose governments are prepared in accordance with generally accepted governmental auditing standards and the minimum standards as prescribed by the Comptroller of the Treasury.

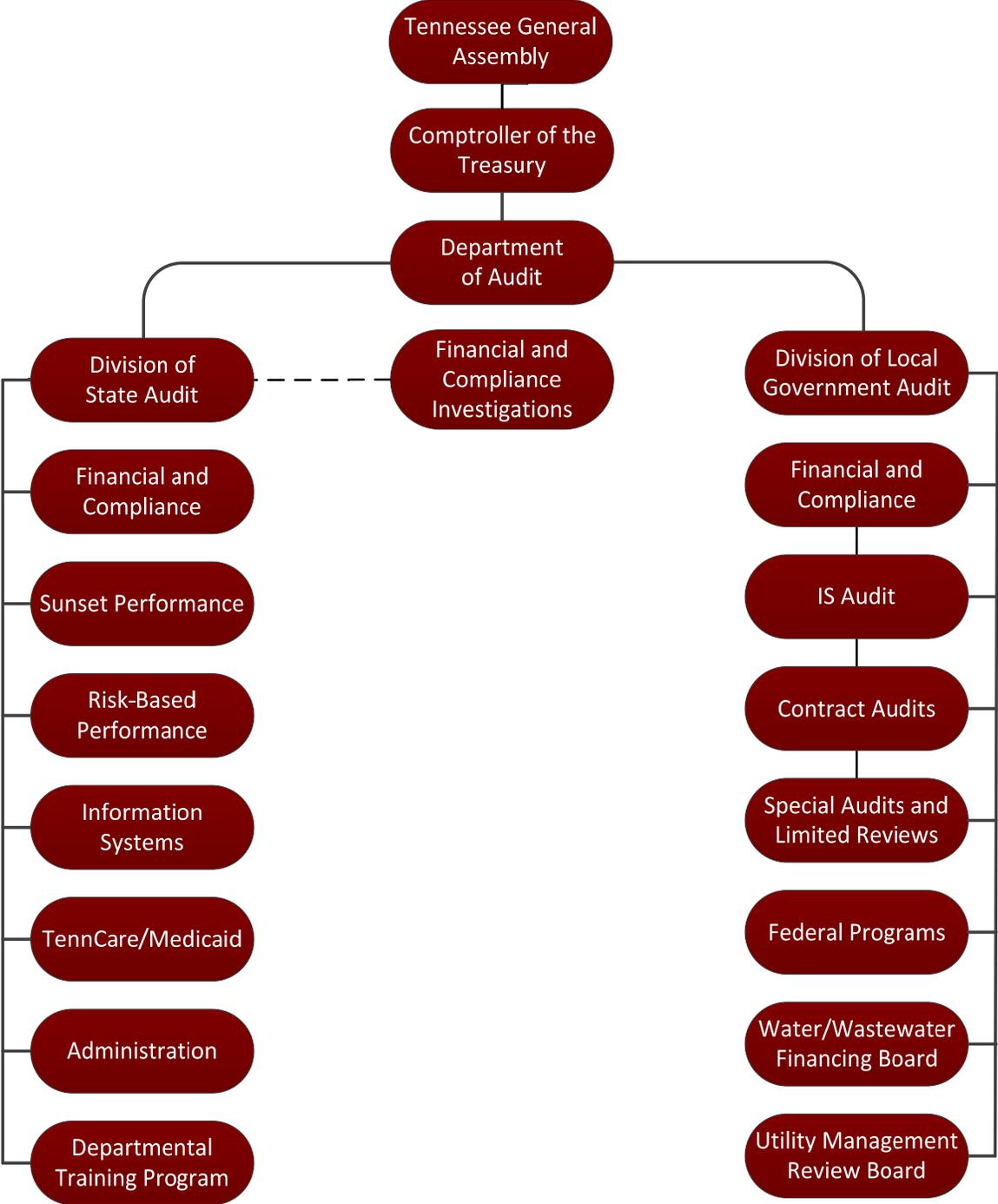
In addition, *Tennessee Code Annotated* authorizes the Department of Audit to conduct investigations. Section 9-3-212(b) states that the Comptroller

may require any audit required of any such agency, or any investigative or review work in addition to such audit which, in the exercise of the comptroller's discretion, the comptroller believes necessary to ascertain or correct errors, irregularities, or defaults in the management and disbursement of funds controlled by such agency, to be conducted by the department of audit.

The Department of Audit comprises two divisions—State Audit and Local Government Audit—and employs approximately 300 people. Each division is administered by a director who is responsible for the audit function and addresses audit concerns and issues in the division.

The Financial and Compliance Investigations Unit, administratively attached to the Division of State Audit, conducts investigations that support the financial and compliance audit and Single Audit report timelines of State Audit and Local Government Audit.

Department of Audit Organizational Chart



For additional information on the Department of Audit and the Comptroller, go to www.comptroller.tn.gov.



The Department of Audit is a post-audit agency. As such, it audits an entity's basic financial statements; its compliance with applicable statutes, grant agreements, rules, and regulations; and/or its past record of efficiency and effectiveness at the end of a fiscal period. Pre-audits, in contrast, are performed by an entity's staff to prevent fraud and errors, detect deficiencies, and suggest improvements. The most important distinction is that post-audits are independent of the audited entity. In this respect, a post-audit government agency is comparable to a certified public accounting firm in the private sector.

Because independence is so important in a post-audit agency, the Department of Audit is in the legislative branch of state government. The department is accountable to the General Assembly and provides information to assist the legislature in overseeing the use of public funds and the efficient operation of government.

Auditing Standards

The Department of Audit performs audits in accordance with auditing standards generally accepted in the United States of America promulgated by the American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards issued by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book) applying to financial and performance audits and attestation engagements. The Yellow Book incorporates auditing standards generally accepted in the United States of America for performance (i.e., field work) and reporting and attestation standards promulgated by AICPA.

The Department of Audit conducts its Single Audit in accordance with the Single Audit Act as amended by the 1996 Single Audit Act amendments; Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"; and OMB "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grant Guidance).

Peer Review

To comply with Section 8-4-102, *Tennessee Code Annotated*, the Speakers direct the Department of Audit to undergo a quality assessment review under the auspices of the National State Auditors Association. The most recent review was performed in July 2014 by certified public accountants and other federal and state government professionals. The purpose was to ensure the department is following auditing standards generally accepted in the United States of America and Yellow Book standards.

The peer review for the year ended June 30, 2014, rendered an unmodified opinion on the department's system of quality control. In the opinion of the quality assessment team, "the system of quality control of the State of Tennessee Comptroller of the Treasury, Department of Audit in effect for the period of July 1, 2013, through June 30, 2014, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with applicable auditing standards." The next review is scheduled for July 2016.



Comptroller of the Treasury Strategic Plan Framework



Mission

**To improve the quality of life for all Tennesseans
by making government work better**

Purpose

To serve the people of Tennessee by:

- Contributing to the protection of the public trust and promoting the public interest
- Enhancing effective public policy decisions at all levels of government
- Fulfilling operational and oversight responsibilities as may be assigned with the highest possible degree of excellence, efficiency, and effectiveness

Goals and Objectives

**Assure public resources are used effectively, efficiently,
and in compliance with applicable law**

- Exercise an oversight role of governmental entities and agencies
- Continue to evaluate the effectiveness and efficiency of resources used by each division through a performance-based operation
- Ensure the secure, efficient, and effective use of technology solutions

**Accomplish and provide continuous improvement for the statutory
and other assigned responsibilities of the Comptroller’s Office**

- Use cross-divisional teams to address office-wide themes and appropriate strategic objectives
- Continue to advance the Comptroller’s Office to a performance-based operation

Provide timely, adequate, and accurate information to decision makers at all government levels

- Maintain a process to develop appropriate information for decision makers
- Maintain a process to provide decision makers with appropriate information concerning policy, resource use, and management
- Encourage cooperation and joint efforts among divisions

**Provide a diverse, competent, ethical and professional staff
and maintain continual development of such staff**

- Adhere to a uniform Code of Ethics Program
- Maintain a succession plan for management
- Maintain a training program for the continual development of all staff
- Seek a healthy and safe work environment
- Review compensation issues within the Comptroller’s Office on an annual basis
- Maintain a recruiting and hiring process that promotes diversity

Provide and maintain effective communication with internal and external audiences

- Maintain and improve a program which coordinates timely communications using the best available technology for internal and external communications
- Maintain appropriate historical information
- Inform and educate the citizens of the state, the general assembly, and other government entities about the role of the Comptroller
- Maintain a pro-active presence in professional organizations and associations

Core Values

<i>Honesty and Integrity</i>	<i>Accuracy and Reliability</i>	<i>Accountability</i>
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Division of State Audit

The Division of State Audit conducts financial and compliance audits, performance audits, information systems audits, and attestation engagements. It also performs special studies to provide the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state's financial condition and the performance of the state's agencies and programs. This division thus aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. In fulfilling this audit function, the division issued 54 reports during the year ended June 30, 2015; an additional 89 audits were in progress at year-end.

This division includes five audit sections: Financial and Compliance, Information Systems, Sunset Performance, Risk-Based Performance, and TennCare. Highlights of the division's work from July 1, 2014, through June 30, 2015, are presented. Complete reports are available at www.comptroller.tn.gov/sa/AuditReportCategories.asp.

In addition to auditing, the division reviews and comments on due process documents from professional organizations and conducts technical research and training. The division also assists the Comptroller in the formulation of state policy and regulations, either directly by consulting with representatives of state agencies or indirectly by submitting comments about proposed policies and procedures.

Financial and Compliance

The Financial and Compliance section conducts financial and compliance audits of state departments, agencies, and institutions. The objectives of financial and compliance audits are

- to consider the entity's internal control over financial reporting as a basis for designing auditing procedures to express an opinion on the financial statements;
- to determine compliance with certain provisions of laws, regulations, contracts, and grant agreements;
- to determine the fairness of the presentation of the financial statements; and
- to recommend appropriate actions to correct deficiencies.

Information Systems

To provide information for audit fieldwork, the data retrieval staff write computer programs and use specialized audit software to provide information from the state's centralized accounting system, individual

agency application systems, and college and university transaction files.

The IS review staff are responsible for obtaining and documenting an understanding of internal control in the computerized accounting and management information systems of entities undergoing audits by other sections of the division. Staff evaluate the effectiveness of general and application controls and recommend internal control improvements in audit findings.

In the area of computer forensic analysis, evidence of fraud and abuse may be found on subjects' computers, and the IS section works in support of the Financial and Compliance Investigations Unit, Special Investigations Unit, Office of General Counsel, and individual state agencies to acquire, identify, and analyze this evidence. The section uses specialized software and hardware to recover evidence of official misconduct by state employees and in support of civil or criminal action against persons or entities engaging in illegal activities resulting in damages to the state.

Performance

A performance audit is an independent examination of the extent to which agencies and departments of state government are faithfully carrying out their programs. The audit reports assist the General Assembly and agency management by

- assessing the extent to which state agencies have fulfilled their statutory mandate and the efficiency and effectiveness of their organization and use of resources,
- developing recommendations for management or legislative action that might improve the efficiency and effectiveness of the agencies' operations, and
- providing program and financial data.

Performance audits move through six phases: planning, fieldwork, report writing, agency comments, report publication, and often presentation at a legislative hearing. Performance audits generally include the following:

- Review of relevant laws, cases, Attorney General's opinions, executive orders, rules, and regulations.
- Review of the agency's procedures, plans, and records.
- Interviews with staff of the agency and related agencies.
- Observation of the agency's operations and activities.
- Analysis of the agency's revenue and expenditure data, program data, performance, and results.
- Review of comparative data from other states.
- Surveys of individuals, agencies, and organizations served or affected by the agency.
- Tests for compliance with legal requirements.
- Evaluation of the extent to which the agency achieved desired results at the lowest reasonable cost.
- Legislative or administrative recommendations for accomplishing the agency's legislative mandate.

The Sunset Performance Audit section performs work in accordance with the Tennessee Governmental Entity Review Law, known as the Sunset Law (Section 4-29-101 et seq., *Tennessee Code Annotated*), which requires the Joint Government Operations Committee to review each entity at least once every eight years to determine whether the entity should be continued, restructured, or terminated.

The Risk-Based Performance Audit section conducts performance audits based on identification of risks in statewide processes and programs or agency-specific operations and activities. Furthermore, this section performs audits pursuant to the Tennessee Governmental Entity Review Law and coordinates with the Financial and Compliance section on audits of the state's major programs for the Single Audit, pursuant to the Single Audit Act.

Between work led by the Sunset Performance and Risk-Based Performance sections, the Government Operations Committee held 12 public hearings on 60 entities in the year ended June 30, 2015. At these hearings, Performance Audit staff presented audit reports covering 10 entities. Another 48 entities submitted written responses to staff-prepared questions based on the entities' statutory authority and responsibility. Additionally, the committee held a follow-up hearing on two entities.



TennCare

Under an agreement with the Department of Finance and Administration, staff in the TennCare section perform the following audit and rate-setting functions for the state's TennCare program:

- Reimbursable rate computation and examinations for nursing homes and Intellectual and Developmental Disabilities facilities participating in the Medicaid Program.
- Computations of reimbursement settlements and prospective rates for Federally Qualified Health Centers and Rural Health Clinics as required by the Benefits Improvement and Protection Act of 2000.
- Cost settlements for state-operated Developmental Centers serving individuals with intellectual disabilities.
- Technical, financial, and budgeting support to the Bureau from nursing home paid claims extracts.
- Examinations of TennCare Managed Care Contractors (MCCs), who contract with the state to provide medical services under the program, performed jointly with the Department of Commerce and Insurance.

Results of Audits

During the year ended June 30, 2015, a major endeavor of the division was the Single Audit of the State of Tennessee for the year ended June 30, 2014, conducted in accordance with Office of Management and Budget (OMB) Circular A-133. The *Single Audit Report* reflected federal awards of over \$14 billion.

We noted instances of noncompliance that resulted in a qualified opinion on compliance for 5 of the state's 27 major federal programs. In addition, we noted other instances of noncompliance that met the reporting criteria contained in OMB Circular A-133. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to federal programs.

As a result of testing the state's compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each major federal program, costs of over \$6.9 million were questioned.

The Single Audit included an audit of the state's basic financial statements. This audit resulted in an

unmodified opinion on the basic financial statements of the State of Tennessee for the year ended June 30, 2014.

The audit also determined that the Schedule of Expenditures of Federal Awards was fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In addition to the *Single Audit Report*, separate audit reports were issued on many agencies and institutions of state government. The separate audits of the departments, agencies, and institutions are not meant to serve as organization-wide audits as described in the Single Audit Act as amended in 1996 and OMB Circular A-133. Some, however, serve as segments of the organization-wide audit of the State of Tennessee; therefore, they include the necessary tests for compliance with applicable laws, regulations, contracts, and grant agreements and the required consideration of the internal control.

Including the *Single Audit Report*, the division published 32 financial and compliance audit reports containing 83 audit findings and issued opinions on 67 sets of financial statements. In addition, the division performed certain other audit procedures for higher education facilities and other state entities to assist them in meeting regulatory requirements.

Financial and Compliance

The division's financial and compliance reports included the following:

- ◆ Austin Peay State University
- ◆ Clean Water State Revolving Fund
- ◆ Department of Mental Health and Substance Abuse Services
- ◆ Department of the Treasury
- ◆ District Public Defenders Conference
- ◆ East Tennessee State University
- ◆ Jackson State Community College
- ◆ Local Government Group Insurance Fund
- ◆ Middle Tennessee State University
- ◆ Nashville State Community College
- ◆ Northeast State Community College
- ◆ Pellissippi State Community College
- ◆ Retiree Health Funds
- ◆ Roane State Community College
- ◆ Roane State Community College Foundation
- ◆ Single Audit Report
- ◆ Teacher Group Insurance Fund

- ◆ Tennessee Board of Regents Central Office
- ◆ Tennessee Consolidated Retirement System
- ◆ Tennessee Education Lottery Corporation
- ◆ Tennessee Housing Development Agency
- ◆ Tennessee Local Development Authority
- ◆ Tennessee Regulatory Authority
- ◆ Tennessee Sports Hall of Fame
- ◆ Tennessee State School Bond Authority
- ◆ Tennessee State Veterans' Homes Board
- ◆ Tennessee Student Assistance Corporation
- ◆ Tennessee Technological University (2013)
- ◆ Tennessee Technological University (2014)
- ◆ The University of Memphis
- ◆ The University of Tennessee
- ◆ Walters State Community College

Performance

As listed below, the division released 15 performance reports: 9 audit reports under the Governmental Entity Review Law (7 from the Sunset Performance Audit section [f] and 2 from the Risk-Based Performance Audit section [†]); 5 risk-based audit reports; and 1 special report.

Governmental Entity Review Law

- ◆ Bureau of TennCare*
- ◆ Consumer Advocate Division, Office of the Attorney General and Reporter†
- ◆ Department of Commerce and Insurance Including Commission on Firefighting Personnel Standards and Education and Peace Officers Standards and Training Commission†
- ◆ Department of Correction Follow-up Report*
- ◆ Department of Education and State Board of Education*
- ◆ Department of Health and Medical Examiner Advisory Council*
- ◆ Department of Labor and Workforce Development and Related Entities*
- ◆ Human Resource Agencies*
- ◆ Tennessee State Veterans' Homes Board Follow-up Report*

Risk-Based

- ◆ Department of State
- ◆ Office of the Attorney General and Reporter
- ◆ Office of the Comptroller of the Treasury
- ◆ Office of the Executive Director of the District Attorneys General Conference
- ◆ Tennessee Bureau of Investigation

Special Report

- ◆ Annual Report on the Status of Submission of Title IX Implementation Plans

TennCare

The division completed examinations of the following 8 nursing facilities:

- ◆ Boulevard Terrace, Murfreesboro, Tennessee
- ◆ Crockett County Nursing Home, Inc., D/B/A Alamo Nursing and Rehab Center
- ◆ Cumberland Village Genesis Healthcare, LaFollette, Tennessee
- ◆ Glen Oaks, LLC, Shelbyville, Tennessee
- ◆ Harriman Care and Rehabilitation Center
- ◆ Kindred Nursing and Rehabilitation – Smith County
- ◆ Signature HealthCARE of Greeneville
- ◆ Union City Nursing and Rehabilitation Center

The division's TennCare section also assisted the Department of Commerce and Insurance in one Managed Care Contractor (MCC) examination. The summary of findings included claims processing and compliance deficiencies.

The state, legislature, or federal government often requests that the Division of State Audit work on special TennCare projects. In one such project, the state, under a consent decree with the federal court, agreed to comply with requirements with respect to TennCare enrollee grievances and appeals. The TennCare MCCs and providers were also subject to the decree, so it had widespread implications. The agreement, commonly referred to as the "Grier Consent Decree," became effective November 1, 2000. The decree required the state to enter into an agreement with the Comptroller's Office to monitor compliance and to report quarterly. The court signed an agreed order in June 2015 that vacated the provisions of the decree that required monitoring and reporting by the Comptroller. As a result, those requirements are no longer in effect. Reports through September 2014 have been completed and released, and will be the final reports released under this order.

Audits in Progress at Year-End

On June 30, 2015, 89 audits were in progress: 44 financial and compliance audits, 10 information systems audits, 18 performance engagements, and 17 nursing facility examinations.

Through the Division of Local Government Audit, the Department of Audit is responsible for the audits of all local governmental entities with statutory audit requirements as well as certain nonprofit and for profit organizations that are publicly funded. The division may conduct the audit for governmental entities or accept an audit prepared by the certified public accountant provided the audit meets minimum standards established by the Comptroller of the Treasury. The division conducts the annual audits for 89 of the state's 95 counties. Through a contractual process with independent certified public accounting firms, the division ensures the performance of over 1,600 audits for the state's remaining counties, municipalities, public internal school funds, charter schools, utility districts, housing authorities, local government created entities, quasi-governmental organizations, and other government-funded agencies.

Financial and Compliance Audits

The division presently conducts audits in 89 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.



The Audit Process

The Division of Local Government Audit performs the following general procedures as part of the financial and compliance audit process:

- evaluates the entity's existing internal controls in the appropriate areas of operation;
- confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry;
- determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records;
- determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing;

- determines compliance with federal regulations and state and local laws;
- obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure;
- evaluates financial statement presentation to determine conformity with accounting principles generally accepted in the United States of America; and
- evaluates the validity of all evidence obtained throughout the audit process to formulate an opinion on the financial statements.

Scope of Activity

Post-Audit of County Governments

The Division of Local Government Audit conducted audits in 89 of the state's 95 counties for the 2013-2014 audit year. A minimum of ten offices or departments in each county was audited:

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

The audits of all offices were for the fiscal year ended June 30, 2014. The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment.

Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office and released. The division also prepares audits of two special school districts and performs special audits and reviews as requested or as deemed necessary.

Results of Audits

Audits of financial transactions for the year ended June 30, 2014, conducted by the Division of Local Government Audit revealed an increase in cash shortages of \$578,967 and total ending cash shortages of \$693,671. Details of the latest cash shortages report are available on the Comptroller's website at www.comptroller.tn.gov/la.

The audits conducted by the Division of Local Government Audit for the year ended June 30, 2014, disclosed a total of 602 audit findings in 87 counties. Two counties, Hamblen and Robertson, did not have any audit findings for the year ended June 30, 2014.

Information System Reviews

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for evaluating those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and seven IS auditors, who are assigned to different areas of the state.

General and application controls of a county's computer hardware and computerized accounting and information systems are evaluated. Findings resulting from this evaluation are discussed with the appropriate officials and included in the county's annual financial report.

Scope of Activity

Information System Reviews

As required by the division's annual audit plan, information system related controls were evaluated in 89 counties and two special school districts during the year ending June 30, 2015.

Contract Audits

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

Counties

- ◆ 6 of the state's 95 counties
- ◆ 268 county-related entities

Municipalities

- ◆ 342 municipalities
- ◆ 60 municipal-related entities

Quasi Governments

- ◆ 179 utility districts
- ◆ 85 housing authorities and 4 housing authority related entities
- ◆ 18 human resource agencies and development districts
- ◆ 111 other quasi-governmental entities

Schools

- ◆ 148 public internal school funds
- ◆ 58 charter schools and 1 charter school related entity
- ◆ 13 of the 15 special school districts

The division further ensures that approximately 244 nonprofit and for-profit organizations are audited as required by state contracts and agreements.

The entities use standard contracts, prepared by the Comptroller of the Treasury, which must be approved by the Comptroller's designees in the Division of Local Government Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with other federal and state provisions.

For the six counties, the division monitors the contract audits in accordance with a four-year monitoring plan, which includes a review of working papers prepared by certified public accountants.

The Division of Local Government Audit approves the audit contracts of the certified public accountants and reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit fails or refuses to have an audit, the Comptroller may direct the Division of Local Government Audit, or may appoint a certified public accountant, to perform the audit. If a nonprofit or for-profit organization refuses to

have an audit, the division works in connection with the respective state funding agency to obtain an audit. The division evaluates the audit working papers of certified public accounting firms that audit the entities. The objective of this review is to ensure that in addition to standards prescribed by the American Institute of Certified Public Accountants and Government Auditing Standards issued by the United States Comptroller General, standards prescribed by the Comptroller of the Treasury have been followed. If the firm's audit working papers are deemed substandard, the Comptroller of the Treasury takes appropriate action, which might include referral to the State Board of Accountancy.

Scope of Activity Monitoring and Review of Contract Audits

The division will monitor audits of six county governments during the next four years. The audit of Hamilton County was monitored for the year ended June 30, 2014, and the audits of Washington and McMinn Counties will be monitored for the year ended June 30, 2015. For the year ended June 30, 2015, the division reviewed 1,876 audit reports submitted by certified public accountants for audits of local governments and other publicly funded entities.

Other Services

Technical Assistance

In addition to the basic audit function and the monitoring and review of audits by certified public accountants, the division provides other services. These services include

- providing information and assistance to facilitate implementation of new auditing and accounting standards;
- submission of federal program data to the federal clearing house on behalf of county governments;
- requesting technical data for pension and other postemployment benefits note disclosures from the State of Tennessee;
- maintenance of the uniform chart of accounts used by county governments; and

- participation in the review of notifications made to the Comptroller's Fraud Hotline.

The division also provides, upon request, assistance to counties in resolving current problems with financial administration, as well as answering questions on various local governmental matters. The division provides fiscal reviews of new legislation related to county governments and works closely with the state legislature with regard to the passage of new statutes for county governments.

Statutory Referral of Utility Systems

Sections 68-221-1010(a) and 7-82-703(a), *Tennessee Code Annotated*, require the Comptroller to refer financially distressed municipal water and/or wastewater systems and public utility districts to the state's Water and Wastewater

Financing Board and/or the Utility Management Review Board. Sections 68-221-1010(d) and 78-82-401(h) of *Tennessee Code Annotated* require the Comptroller to refer water systems with excessive unaccounted for water losses. After the Division of Local Government Audit refers applicable facilities to the appropriate board, the respective board obtains and reviews a proposed plan for correction by the facility. If the board finds the facility's plan unacceptable, the board will recommend an alternate course of action.

During the year ended June 30, 2015, the division referred 99 utility systems to the Water and Wastewater Financing Board and/or the Utility Management Review Board. As a result, several utility districts and municipal utility systems are now

operating or are on their way to operating on a financially sound basis and/or are in the process of taking measures to decrease their water loss rates.

Reviews of Funds Administered by District Attorneys General

During 2014, the division conducted reviews of District Attorney General Funds, Judicial District Drug Task Force Funds, and other funds the district attorneys general administer in the state's 31 judicial districts. Each review covered the period July 1, 2013, through June 30, 2014. The scope of each review was limited to the transactions of the individual funds and did not include the overall operation of the district attorneys' offices.





Financial and Compliance Investigations Unit

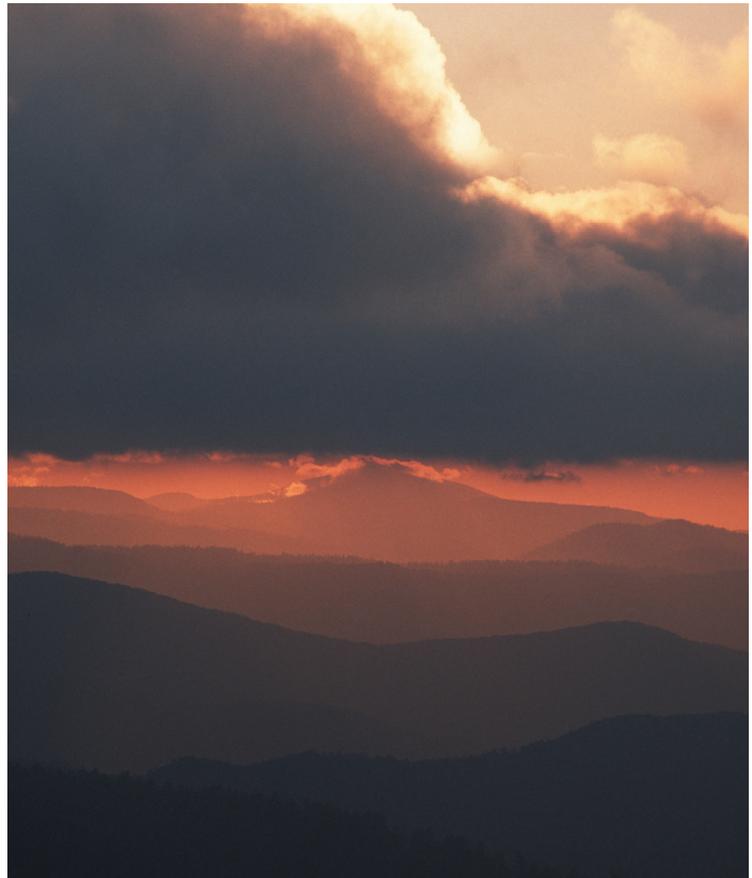
The Financial and Compliance Investigations Unit conducts investigations which support the financial and compliance audit and Single Audit report timelines of State Audit and Local Government Audit. The unit investigates allegations of fraud as well as certain allegations of waste and abuse of public funds. These cases may result in criminal prosecution.

Investigations are performed as a result of allegations received through the Comptroller's toll-free hotline; statutorily required fraud reporting forms; misappropriations or other significant issues indicative of fraud noted during routine audit work or audit report reviews; information received from certified public accountants, other state agencies, and concerned citizens and/or officials; and requests received from local District Attorneys General, Tennessee's Office of the Attorney General, the Federal Bureau of Investigation, and other prosecutorial and law enforcement agencies. Results of investigations are presented in reports or letters that document occurrences of improper activity. Reports are forwarded to Tennessee's Office of the Attorney General, the local District Attorney General, and, when applicable, the local Office of the United States Attorney for any legal action deemed necessary. The investigators assist local District Attorneys General, Tennessee's Office of the Attorney General, the Office of the United States Attorney, and the Tennessee Bureau of Investigation.

The unit's investigations also include an assessment of internal controls and compliance with applicable laws relative to the issues investigated. Investigators have often found that weak internal controls or ineffective management were contributing factors in most of the losses incurred as a result of fraud. In the resulting reports or letters, the unit identifies these internal control and compliance deficiencies and recommends corrective action. The investigations point out to officials the importance of sound internal controls and compliance with applicable laws and regulations. The investigators also share the

information with State Audit and Local Government Audit for consideration in audits of the affected entity.

During the fiscal year ended June 30, 2015, the unit released 18 investigative reports and letters revealing losses of at least \$1,265,240 due to fraud and cited an additional \$256,671 of questioned costs due to apparent waste and/or abuse. Most investigations revealed deficiencies in (or the absence of) internal controls; lack of compliance with applicable laws and regulations; or other problem areas that created an environment conducive to fraud, waste, and abuse.





Comptroller's Hotline

Since its inception, the hotline has received over 21,000 notifications, including 951 notifications between July 1, 2014, and June 30, 2015. The hotline received 779 telephone calls and 172 submissions through the online reporting website. Of the 951 total notifications, 486 concerned substantive allegations of fraud, waste, or abuse. These notifications concerned a wide range of entities, including municipalities, counties, state agencies, federal agencies, and non-profit recipients of government funds. A more detailed analysis is below. Substantive notifications are reviewed by Comptroller staff or are referred to the appropriate agency or program.

Of the 486 notifications referred for action, responses have been received on 379, and these are considered closed. The remaining 107 continue to be considered open.

The remaining 465 notifications were not assigned for review because they were either repeat notifications or were not relevant to the purpose of the hotline. Notifications in the latter group include wrong numbers, hang-ups, general inquiries about the hotline, and requests for services provided by other agencies, such as tax assistance. Where applicable, the person making the notification is referred to the appropriate agency or department that can provide assistance.

Results of Hotline Notifications

The following summaries are the results of hotline notifications upon which corrective action was taken for the year ending June 30, 2015.

Children's Services – Workplace Harassment

The notification alleged that a fellow employee was harassing the notifier. The allegation was substantiated. The employee was terminated prior to completion of the employee's probationary period.

Children's Services – Time and Attendance

The notification alleged that an employee was wasting time discussing personal issues and was using the employee's computer to visit websites that were not work related. The allegation was substantiated. Management addressed the issue in the employee's performance evaluation.

Comptroller of the Treasury – Unauthorized Purchases

The notification alleged that an official was purchasing gasoline for personal use and charging it to the local government. The allegation was substantiated. The review revealed a cash shortage of approximately \$35,000 and identified approximately \$40,000 in questionable purchases by the official. The official was indicted for a theft over \$10,000.

Comptroller of the Treasury – Drug Fund Proceeds

The notification alleged that money was missing from the local government's drug fund. The allegation was substantiated. The review revealed a cash shortage of approximately \$2,300 and identified several internal control weaknesses related to the drug fund. The findings were reviewed with the district attorney general.

Comptroller of the Treasury – Inappropriate Actions by Non-Profit Agency

The notification alleged that the operators of a non-profit agency contracting with the State to provide services were receiving inflated salaries and bonuses. The allegation was substantiated. The review identified approximately \$733,000 in unauthorized disbursements. Several individuals affiliated with the non-profit were indicted for theft of property over \$250,000.

Comptroller of the Treasury – Conflict of Interest

The notification alleged that a local official had a conflict of interest by requiring employees to purchase equipment from a business owned by the official's spouse. Although the conflict of interest was not substantiated, the review identified weaknesses in the use of related party questionnaires. A finding was taken against the government entity.

Comptroller of the Treasury – Cash Shortage

The notification alleged that irregularities existed in the receipts, deposits, and daily collections by a government office. The allegation was substantiated. The review identified a \$35 shortage and identified several deficiencies in the operation of the office. Findings were taken on the shortage and deficiencies.

Comptroller of the Treasury – Cash Shortage

The notification alleged that cash had not been deposited into the government entity's bank account for several months. The allegation was substantiated. The review revealed that collections were not accounted for properly, leading to a \$195 cash shortage, as well as the subsequent discovery of approximately \$1,800 found in a locked filing cabinet. A finding was taken on this issue.

Comptroller of the Treasury – Cash Shortage

The notification alleged that an employee failed to deposit cash seized by the police department. The allegation was substantiated. The review revealed the employee failed to turn over at least \$6,000 for deposit. The employee was indicted on theft and official misconduct charges.

Comptroller of the Treasury – Unauthorized Reimbursements

The notification alleged that a school official was improperly reimbursed for travel expenses. The allegation was substantiated. The review revealed at least \$3,677 in inappropriate reimbursements. The official was indicted on theft and official misconduct charges.

Comptroller of the Treasury – Lack of Financial Oversight

The notification alleged that a city checking account was missing money. Although the allegation was not substantiated, the review revealed that the city did not have sufficient internal control over its financial reporting process. A finding was issued in the city's annual audit report.

Comptroller of the Treasury – Conflict of Interest

The notification alleged that a contract was awarded to the spouse of a local official. The allegation was substantiated. The review revealed that the official failed to disclose the official's indirect conflict of interest prior to the vote on the contract. The review also revealed issues with the bid selection process and other financial internal controls.

Comptroller of the Treasury – Conflict of Interest

The notification alleged that local government officials failed to disclose a conflict of interest in a matter the

officials voted on. The allegation was substantiated. The review revealed that the officials failed to declare an indirect conflict of interest prior to voting on the transaction. A finding was taken on the issue.

Comptroller of the Treasury – Employee Misappropriation

The notification alleged that agency employees had misappropriated agency funds for personal use. The allegation was substantiated. The review revealed that several employees had misappropriated approximately \$229,000 from the agency. Two employees were indicted on theft charges.

Comptroller of the Treasury – Employee Misappropriation

The notification alleged that a volunteer fire department official misappropriated departmental funds for personal use. The allegation was substantiated. The review revealed that the officer misappropriated approximately \$5,000 of department funds. The official was indicted on theft and forgery charges.

Comptroller of the Treasury – Improper Actions by Utility District

The notification alleged that a utility district had improperly placed a lien on a piece of property for an unpaid water bill. The allegation was substantiated. It is permissible for a utility district to place a lien on a piece of property for failure to pay a sewer bill, but not for failure to pay a water bill. The utility district corrected the error.

Comptroller of the Treasury – Errors in Jury Duty Payments

The notification alleged that citizens were receiving jury duty checks despite not serving on the jury during the time period in question. The allegation was substantiated. The review revealed a total of approximately \$3,300 in overpayments and \$2,500 in underpayments. A finding was taken against the county.

Comptroller of the Treasury – Improper Utility Charges

The notification alleged that a utility department was not charging customers consistent with the utility's billing policy. The allegation was substantiated. The review revealed not only inconsistent billing actions, but also identified various other areas of lax enforcement resulting in a disclaimed opinion on the financial statements due to a lack of internal controls.

Comptroller of the Treasury – Misappropriation of Government Property

The notification alleged that officials and employees were taking government property for personal use.

Although the allegation was not substantiated, a finding was taken due to the lack of internal controls at the city's warehouse which could lead to employee theft.

Comptroller of the Treasury – Improper Use of Drug Fund Proceeds

The notification alleged that improper purchases were made out of the local government drug fund. The allegation was substantiated. Approximately \$6,800 in purchases were identified as not being compliant with the drug law, and a finding was taken against the local government.

Comptroller of the Treasury – Lack of Internal Controls

The notification alleged that concession proceeds were being misappropriated. Although the allegation could not be substantiated, a finding was taken against the government entity due to a lack of segregation of duties and other internal controls.

Comptroller of the Treasury – Improper Lease Approval

The notification alleged that a local government had failed to properly bid a new equipment contract. The allegation was substantiated. The review determined that the local government renewed an equipment contract without proper approval. A finding was taken against the local government.

Comptroller of the Treasury – Improper Use of Military Surplus Property

The notification alleged that a local government was not properly using or accounting for military surplus items received through the Department of Defense Excess Property Program. The review determined that the local government failed to properly inventory, track, and in certain instances, utilize property received through the program. This resulted in a finding and questioned costs of approximately \$11,000 against the local government.

Correction – Vehicle Use

The notification alleged that an employee was using a State issued vehicle for personal use. The allegation was substantiated. Management warned the employee about proper usage. Management placed additional controls on the employee by requiring the employee to work through the employee's director to check out a State vehicle and by prohibiting the employee from taking any State vehicles home.

Correction – Time and Attendance Abuse by Contractor Employees

The notification alleged that contractor employees had submitted falsified time records. The allegation was

substantiated. One employee resigned prior to the review and another was terminated as a result of the review. The review determined that the department had been overbilled by approximately \$9,633. The department reduced invoice payments to account for the amount. Additionally, the review revealed a warden required contractor staff to assist the warden in getting to work due to medical issues. The warden reimbursed the department approximately \$820 for the amount charged for staff time.

Financial Institutions – Improper Roll-Over Loans

The notification alleged that a short term lender was inappropriately consolidating short term loans. The allegation was substantiated. Although no government funds were involved, the department took administrative action against the lender.

Health – Inappropriate Disposal of Surplus Property

The notification alleged that a department employee kept surplus property for personal use. The allegation was not substantiated; however, it was determined that the employee had not properly disposed of the surplus property pursuant to General Services' policy. It was recommended that management take appropriate disciplinary action against the employee.

Human Services – Inappropriate Actions by Day Care

The notification alleged that a day care was requiring children to sleep on towels rather than 2" mats. The allegation was substantiated. The day care was cited for violation of licensing rules, and it took corrective action.

Human Services – Supplemental Nutritional Assistance Program Fraud

The notification alleged that an individual had falsified information in order to receive SNAP assistance. The allegation was substantiated. The review determined that the individual intentionally falsified information on the application. A claim for approximately \$12,880 was posted against the individual. The issue was referred to the district attorney.

Intellectual Disabilities – Improper Charges

The notification alleged that a facility was not properly allocating client funds. The allegation was substantiated and additional billing issues were identified as a result of the review. Approximately \$273 in adjustments were made to the client accounts. An aggregate recoupment of approximately \$20,258 in billings was identified and is now due to the State.

Analysis of Substantive Hotline Notifications Fiscal Year 2015

Reviewing Agency	Notifications	Closed	Open
<u>State Government</u>			
Administrative Office of the Courts	1	1	0
Board of Regents	23	20	3
Children's Services	19	18	1
Commerce and Insurance	1	1	0
Comptroller of the Treasury	233	158	75
Correction	10	10	0
Economic and Community Development	1	1	0
Education	15	15	0
Environment and Conservation	11	6	5
Finance and Administration	3	3	0
Financial Institutions	1	1	0
General Services	2	2	0
Health	14	14	0
Human Resources	9	9	0
Human Services	25	21	4
Intellectual and Developmental Disabilities	10	7	3
Labor and Workforce Development	2	2	0
Mental Health and Substance Abuse Services	12	12	0
Mid Cumberland Community Action Agency	1	1	0
Public Defenders Conference	1	1	0
Revenue	3	0	3
Safety	14	13	1
Secretary of State	5	5	0
Shelby County Health Department	1	1	0
TennCare	26	19	7
Tennessee Bureau of Investigation	4	1	3
Tennessee Housing Development Agency	12	12	0
Tennessee Student Assistance Corporation	1	1	0
Tennessee Wildlife Resources Agency	1	1	0
Tourist Development	1	1	0
Transportation	12	12	0
Treasury	3	3	0
University of Tennessee	6	6	0
<u>Federal Government</u>			
Housing and Urban Development	2	1	1
Veterans Affairs	1	0	1
Total	486	379	107



Comptroller of the Treasury Fraud Hotline

1-800-232-5454



Notifications can also be submitted at www.comptroller.tn.gov/hotline.

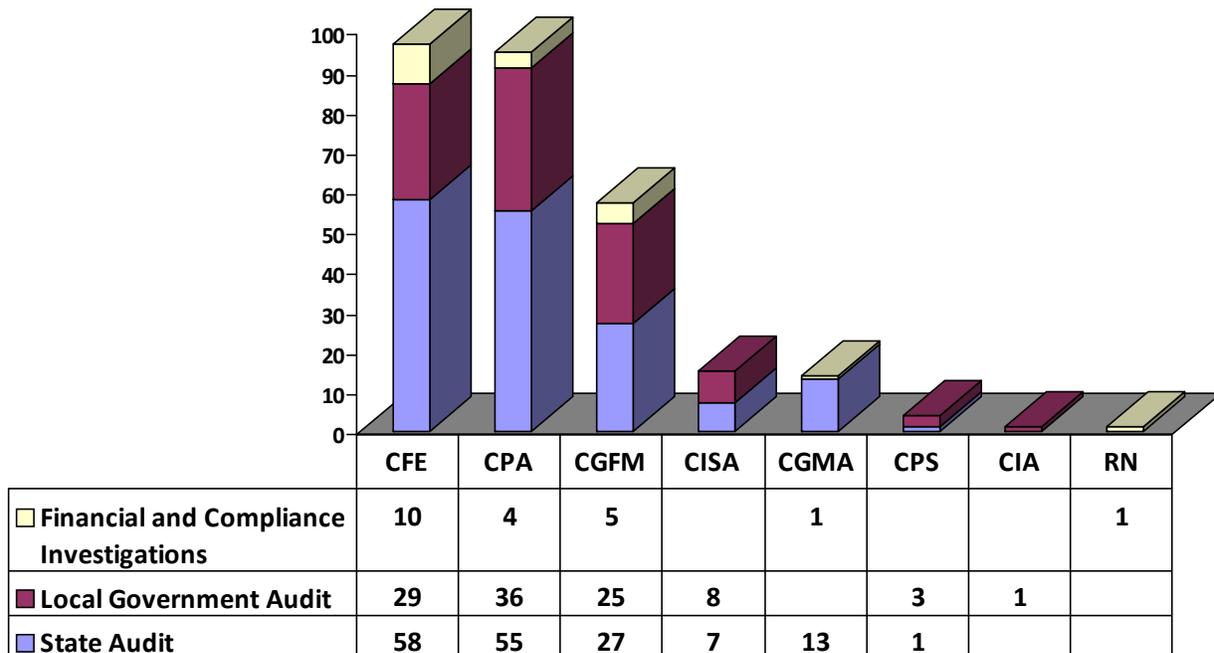
About the Department of Audit

Professional Staff

The department’s professional staff perform a wide variety of audit work requiring different types of training and experience. Therefore, members of the staff have degrees in fields such as accounting, public administration, information systems, law, political science, criminal justice, education, and nursing. More than 80 of the professional staff have advanced degrees. The department encourages its employees to pursue professional certifications such as Certified Public Accountant, Certified Information Systems Auditor, Certified Fraud Examiner, and Certified Government Financial Manager. As of June 30, 2015, more than 200 employees of the department had received one or more professional certifications.

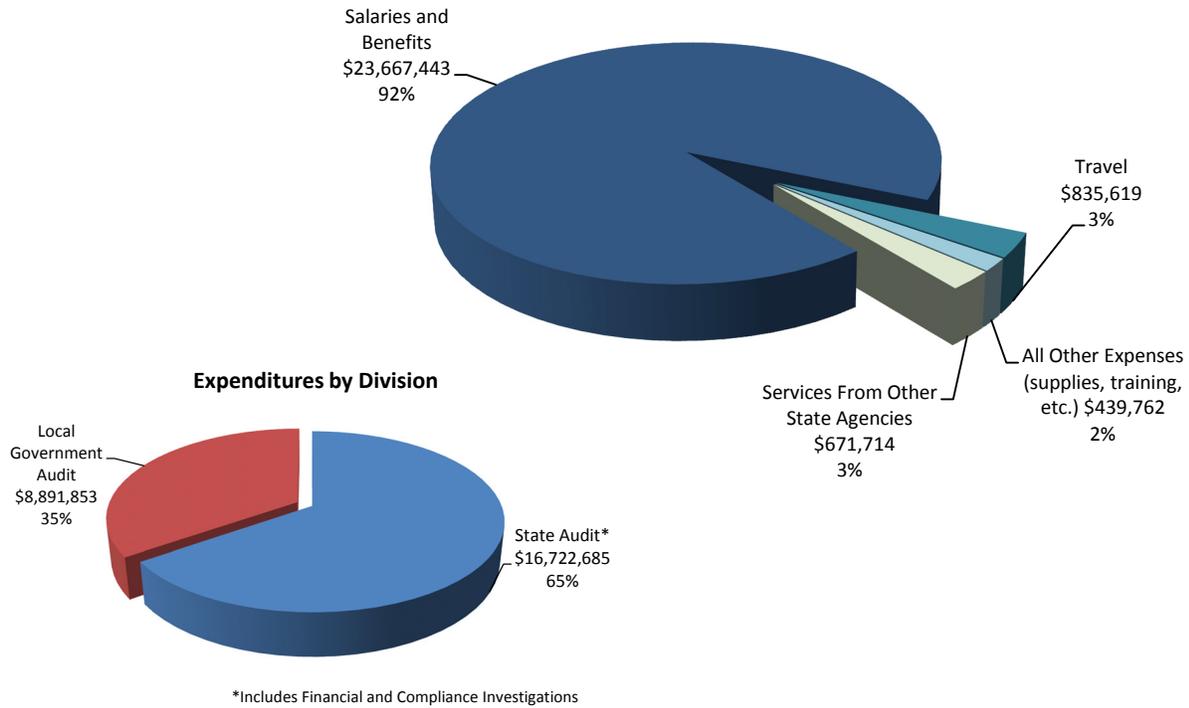
The Department of Audit ensures its auditors receive the required continuing professional education to meet certification standards and Government Auditing Standards. Auditors participate in the department’s in-house training program as course developers, presenters, and participants. Over 15,000 hours of training were completed during the fiscal year ended June 30, 2015. The Department of Audit fully supports its staff’s active participation in local and national professional organizations, recognizing that these organizations contribute to the staff’s continued growth.

Staff Certifications June 30, 2015



Certified Fraud Examiner (CFE), Certified Public Accountant (CPA), Certified Government Financial Manager (CGFM), Certified Information Systems Auditor (CISA), Chartered Global Management Accountant (CGMA), Certified Professional Secretary (CPS), Certified Internal Auditor (CIA), and Registered Nurse (RN).

Department of Audit Expenditures Fiscal Year 2015



Contact Information

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