



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-9034
(615) 741-2501

Justin P. Wilson
Comptroller

January 10, 2011

The Honorable Douglas Henry
321 War Memorial Building
Nashville, Tennessee 37243-0021

The Honorable Randy McNally
307 War Memorial Building
Nashville, Tennessee 37243-0205

The Honorable Craig Fitzhugh
33 Legislative Plaza
Nashville, Tennessee 37243-0182

The Honorable Charles Sargent
206 War Memorial Building
Nashville, Tennessee 37243-0161

Re: Comprehensive Annual Financial Report

Gentlemen:

As we anticipated, the Department of Finance and Administration was unable to meet its goal of completing the *Tennessee Comprehensive Annual Financial Report (CAFR)* by December 31, 2010. The department has not provided us with another anticipated date on which they would complete delivery of financial statements and related information for audit purposes.

The reasons for the delay continue to be related to issues stemming from the Edison implementation. As you recall, several years ago the decision was made to convert Tennessee's legacy computer systems to an Enterprise Resource Planning (ERP) system. An ERP system is an integrated software package that pulls previously separate computer system information into a common database. The intent of the change was to increase efficiency and to replace systems that were becoming more aged and more difficult to maintain. Tennessee's ERP effort is referred to as Project Edison.

The Edison implementation is now complete, but it has presented a wide range of challenges, as you can see in the attached letters that were issued previously by this office. And while all agencies are now using Edison, the Department of Finance and Administration has acknowledged that the financial component of the system is not considered to be at “steady state.” The learning curve has been steep, and user acceptance and training have been key concerns. The human capital (payroll) component was implemented first and is considered to be at steady state by the department’s staff. The financial component of the system was implemented in waves, with the first wave of agencies starting to use Edison for financial information during the fiscal year ended June 30, 2009.

As you can see in the [letter](#) dated August 9, 2010, the CAFR for the State of Tennessee was not complete until August 6, 2010, over 13 months after the last day of the 2009 fiscal year. This significant delay has caused a ripple effect that has contributed to a delay for the 2010 CAFR. The delay is also attributed to some other factors discussed in the November 17, 2010, memo, including, most notably, certain problems with grants accounting that were exacerbated when the last wave of agencies began to use the Edison system in October 2009. This was the largest wave of agencies and included many agencies with significant federal grant awards. As grant accounting problems were discovered, the Department of Finance and Administration has had to coordinate the agencies’ efforts to correct the errors made, slowing down the CAFR effort.

As a reminder, the CAFR is the annual audited financial report for the state, showing the financial position and changes in financial position of the State of Tennessee. The users of the report, in addition to the citizens, taxpayers, and the General Assembly, include bond rating agencies, who utilize the report to determine how to rate Tennessee’s debt offerings. Typically, the CAFR is completed at least by December 31, in order to qualify the state for the Government Finance Officer’s Certificate of Achievement. This December CAFR deadline provides time to complete the work needed to meet the March 31 deadline for the *Tennessee Single Audit Report*.

The Department of Finance and Administration has requested and received an extension from GFOA until March 31, 2011, for the Certificate of Achievement consideration for the 2010 CAFR. However, as the CAFR is delayed, the timing of the *Tennessee Single Audit Report* can be affected as well, as it was in the prior year. The federal government requires the *Single Audit Report* to be submitted by March 31 annually. The 2009 *Single Audit Report* was not completed until August 2010 due to the 2009 CAFR delay. The *Single Audit Report* provides information to the federal government on the state’s accountability for federal financial assistance and is critical in securing continued federal funding.

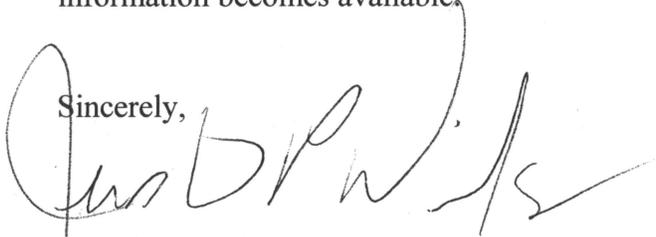
We have auditors in the field to perform CAFR and single audit work as information becomes available to audit. We will also continue to monitor the progress of the Department of Finance and Administration leadership as they take measures to meet their

continuing challenges to complete the CAFR, taking care to ensure that it fairly represents the financial position of the State of Tennessee.

It is important that Tennessee get back on track to routinely producing a timely CAFR and routinely submitting the *Single Audit Report* by the federal deadlines. Timeliness and adequacy of disclosure regarding municipal debt offerings was the subject of recently concluded field hearings held by the United States Securities and Exchange Commission. Indeed, the SEC's enforcement posture regarding disclosure by municipal issuers is also evolving under existing law as evidenced by the filing last year of the first ever SEC enforcement action against a state in connection with disclosure for a debt offering. In this environment, Tennessee has been mentioned in national publications regarding the lack of timeliness of financial disclosure. Timely accounting and financial reporting, including on an interim basis during the fiscal year, is critical for effective management of state government and its programs. These factors emphasize the imperative of substantially improving routine intra fiscal year financial accounting procedures at the agency level to comply with any regulatory changes that may require much more timely financial disclosure. There are also efforts being made by the federal government to move forward the March 31 deadline for the *Single Audit Report*. These reporting changes may or may not occur, but the sooner Tennessee can return to business-as-usual, the better equipped we will be to respond to more aggressive target dates.

We will continue to update you on the status of the 2010 CAFR and Single Audit as new information becomes available.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is written in a cursive, flowing style with a large initial "J" and a long horizontal stroke at the end.

Justin P. Wilson

cc: The Honorable Mike Morrow, Commissioner, Department of Finance and Administration



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-9034
(615) 741-2501

Justin P. Wilson
Comptroller

November 17, 2010

The Honorable Douglas Henry
321 War Memorial Building
Nashville, Tennessee 37243-0021

The Honorable Randy McNally
307 War Memorial Building
Nashville, Tennessee 37243-0205

The Honorable Craig Fitzhugh
33 Legislative Plaza
Nashville, Tennessee 37243-0182

The Honorable Charles Sargent
206 War Memorial Building
Nashville, Tennessee 37243-0161

Re: Comprehensive Annual Financial Report (CAFR)

Gentlemen:

As shown on the attached memorandum, it does not appear that the state's CAFR for the fiscal year ending June 30, 2010, will be completed by the December 31 deadline. I personally doubt that it will be ready by January 31, 2011 even if the state obtains a fairly standard one-month extension.

We are monitoring the situation and taking every step we believe appropriate to assist in this preparation.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson", written over a large, light-colored scribble or mark.

Justin P. Wilson

cc: The Honorable Mike Morrow, Commissioner, Finance and Administration



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
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Memorandum

To: Justin P. Wilson
From: Ed Burr, CPA
Date: November 17, 2010
Subject: Status of CAFR and Single Audit for the year ended June 30, 2010

F&A set an aggressive goal of having an opinion on the June 30, 2010 CAFR by December 31, 2010. Early on we informed Jan Sylvis that we believed there was a possibility of us being able to opine on December 31. However, as of this date that appears unlikely. It does not appear that F&A will be able to complete segments of the financial statements for audit as quickly as necessary for a December opinion date.

Some of the problems that have caused delays are:

- Delays in producing the 2009 CAFR prevented F&A from being able to commence work on the 2010 CAFR as early as normal.
- Those individuals that are responsible for preparing the financial statements of component units of the state such as THDA, TSAC, and TLDA are still unfamiliar with the process of preparing financial statements from EDISON. We normally would have completed our audit of THDA's financial statements by this time. However, we have only recently received those financial statements.
- F&A discovered certain errors related to grants accounting in EDISON that they have asked the departments to correct. This relates more to departments that were not on EDISON until 2010. This delays both the CAFR and the preparation of the Schedule of Expenditure of Federal Awards.
- F&A to date has been unable to correct issues with equipment records in EDISON.
- The State Pooled Investment Fund financial statements cannot be compiled by Treasury until the State's cash entries for all agencies and funds are recorded appropriately on Edison, and F&A Division of Accounts provides Treasury with its final cash reconciliation. Treasury and Division of Accounts are assisting with continuing efforts to finalize the recording of the cash entries.

It also takes more time for our own I/S staff to work with EDISON data than it did to work with STARS data. The Edison extracts are far larger for a given month than an entire year of STARS extracts. Therefore, we are forced to extract each department's data one month at a time, and each of those months takes at least as long as it used to take to do the extract for an entire year of STARS data. This adds to the time we must spend in completing the audits.