



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

Justin P. Wilson  
Comptroller

April 20, 2011

The Honorable Ron Ramsey  
1 Legislative Plaza  
Nashville, Tennessee 37243

The Honorable Beth Harwell  
19 Legislative Plaza  
Nashville, Tennessee 37243

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

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

Re: Single Audit Report

Dear Sir and Madam:

The *Tennessee Single Audit Report* for the year ended June 30, 2010, was released on March 30, 2011. The Single Audit is a federally required audit that encompasses the entire state government. It is designed to meet the needs of all federal grantor agencies. As a practical matter, it is an essential document for the great bulk of the federal funding the state receives.

An audit of the state's financial statements is a required part of the Single Audit. The state's financial statements, and the auditor's opinion thereon, are issued under separate cover in the state's *Comprehensive Annual Financial Report*.

The *Tennessee Single Audit Report* includes the auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. It also includes the auditor's report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 and on the schedule of expenditures of federal awards; audit findings; and the schedule of expenditures of federal awards. That report contained the following:

- **Two material weaknesses related to controls over financial reporting.** A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.
- **A qualified opinion on compliance with federal compliance requirements for four of 25 major federal programs.** A qualified opinion on compliance means that, in our opinion, the entity did not comply with certain requirements that could have a direct and material effect on a major federal program.

- **Other noncompliance with federal compliance requirements along with material weaknesses and significant deficiencies in controls over compliance with federal compliance requirements that we were required to report.** A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

If these reported deficiencies are not corrected going forward, there is an increased risk of material errors in portions of the state's financial statements and a possibility of reduced federal funding for the affected federal programs.

We believe the state complied with federal compliance requirements that could have a direct and material effect on each of the state's major federal programs, in all material respects, except for four programs. Those programs and the related state departments were:

- Weatherization Assistance for Low-Income Persons (Department of Human Services),
- Formula Grants for Other Than Urbanized Areas (Department of Transportation),
- Capitalization Grants for Clean Water State Revolving Fund (Department of Environment and Conservation), and
- Capitalization Grants for Drinking Water State Revolving Fund (Department of Environment and Conservation).

Our opinion on compliance for the Weatherization program was qualified because we found that the Department of Human Services paid for:

- Non-weatherization measures,
- Weatherization measures that were not completed or not properly completed, and
- Weatherization measures that were not verified.

Other factors contributing to the qualification included payments not agreeing with bids or invoices, payments exceeding maximum amounts, unapproved change orders, noncertified energy auditors, improperly performed post-energy audits, and unlicensed contractors. We also found eligibility issues including ineligible applicants, ineligible dwellings, and missing eligibility documentation.

Our opinion on compliance for the Formula Grants for Other Than Urbanized Areas program was qualified because the Department of Transportation:

- Conducted an improper grant application review and award process,
- Paid for unsupported and mathematically incorrect reimbursement requests,
- Paid for ineligible bus routes and ineligible expenses,
- Did not perform proper subrecipient monitoring,
- Did not maintain complete vehicle inventory listings and did not perform all required vehicle inspections,
- Improperly completed federal reports, and
- Did not reconcile the Schedule of Expenditures of Federal Awards to federal reports and accounting records.

For the Clean Water and Drinking Water programs we qualified our opinions on compliance because the Department of Environment and Conservation did not notify subrecipients, such as local governments, that their loans were made with federal funds. Therefore, in some cases required audits of federal funds were not performed. The department did not ensure these audits were performed and did not review, and issue management decisions for, audits that were performed.

The respective federal grantor agencies for each affected federal program will be responsible for overseeing the resolution of the audit findings included in the Single Audit Report. We do not know the extent of remedies to be

required by the federal grantors. It is likely that changes in control procedures will be required for the four programs listed above. Repayment of questioned costs is also likely for the Weatherization and Formula Grant programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a large initial "J" and "W".

Justin P. Wilson  
Comptroller of the Treasury