



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**



OFFICE OF THE COMPTROLLER OF THE TREASURY

Performance Audit Report

October 2018

Justin P. Wilson, Comptroller



Division of State Audit

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

KANDI B. THOMAS, CPA, CFE, CGFM, CGMA
Assistant Director

JOSEPH SCHUSSLER, CPA, CGFM
Audit Manager

Aaron Kistler, CFE
In-Charge Auditor

Sheila Raymer, CFE
Staff Auditor

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Fifth Avenue North
Nashville, TN 37243
(615) 401-7897

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Mission Statement
The mission of the Comptroller's Office is
to make government work better.

Comptroller Website
www.comptroller.tn.gov



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

October 1, 2018

The Honorable Randy McNally
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
and
The Honorable Justin P. Wilson
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Office of the Comptroller of the Treasury for the period July 1, 2017, through June 30, 2018.¹

Since we are not independent with respect to the Office of the Comptroller of the Treasury, we do not express any assurance on internal control and on compliance.

Our audit resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA, Director
Division of State Audit

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¹ Our base audit period was July 1, 2017, through June 30, 2018. In certain instances, we expanded our scope beyond this period. See the Audit Conclusions section for more information.



Division of State Audit

**Office of the Comptroller of the Treasury
Performance Audit
October 2018**

Our mission is to make government work better.

AUDIT HIGHLIGHTS

We have audited the following areas of the Office of the Comptroller of the Treasury:

- the Division of Local Government Audit's monitoring and discipline of Certified Public Accounting firms that complete audits of local governments; and
- the Office of Management Services' contract review process and methods to procure and dispose of equipment.

KEY CONCLUSIONS

Findings

The audit report contains no findings.

Observations

The audit report contains no observations.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
Audit Authority	1
Background	1
AUDIT SCOPE	6
PRIOR AUDIT FINDINGS	6
AUDIT CONCLUSIONS	6
Division of Local Government Audit	6
Office of Management Services	9
APPENDICES	11
Appendix 1 – Business Unit Codes	11
Appendix 2 – Boards, Commissions, and Committees	11

INTRODUCTION

AUDIT AUTHORITY

This is the report on the performance audit of the Office of the Comptroller of the Treasury. Section 8-4-109, *Tennessee Code Annotated*, states the following:

The comptroller of the treasury is hereby authorized to audit any books and records of any governmental entity created under and by virtue of the statutes of the state which handles public funds when such audit is deemed necessary or appropriate by the comptroller of the treasury. The comptroller of the treasury shall have the full cooperation of officials of the governmental entity in the performance of such audit or audits.

The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires the Department of Audit to audit all accounts and financial records of any state department, institution, office, or agency in accordance with both generally accepted auditing standards and procedures established by the Comptroller. An audit may include any or all of the following elements: financial, compliance, economy and efficiency, program results, and program evaluations.

BACKGROUND

The Comptroller of the Treasury is a constitutional officer elected by a joint vote of both houses of the General Assembly for a two-year term, and the functions and duties of the office are assigned through various legislative enactments. The mission of the Comptroller's Office is to make government work better. To discharge its statutory duties, the Office of the Comptroller of the Treasury is organized into several divisions and offices. The basic functions of the divisions and offices are described below.

The Division of Administration provides direction, coordination, and supervision to the divisions and offices within the Comptroller's Office and represents the Comptroller on various boards and commissions. The Chief of Staff, who heads the division, is responsible for the overall management of the Comptroller's Office and acts as liaison to the General Assembly and their constituents. Attached to the Division of Administration are the Office of General Counsel, the Office of Open Records Counsel, the Office of Small Business Advocate, the Water and Wastewater Financing Board, and the Utility Management Review Board. The Office of General Counsel provides legal guidance to all the divisions in the Comptroller's Office; serves as the liaison with the Office of the Attorney General and Reporter; and provides legal representation in judicial and administrative litigation. Additionally, the Office of General Counsel oversees the following groups:

- The Office of Open Records Counsel gives information and advice to citizens, media, and local government officials regarding the Tennessee Public Records Act; collects

data regarding Open Meetings Law inquiries and problems; and offers educational programs on public records and open meetings.

- The Office of Small Business Advocate serves as a point of contact to state government for owners of businesses with 50 or fewer employees. The office responds to questions from Tennesseans who have a small business or who are starting a small business and also assists in resolving issues involving small businesses and state departments and agencies.

The following boards are administratively attached to the Office of the Comptroller. The Water and Wastewater Financing Board is responsible for furthering the legislative objective of self-supporting water systems and wastewater facilities in this state, and the Utility Management Review Board advises utility district boards of commissioners in the area of utility management. If deficiencies are identified, the two boards cooperatively take the necessary steps for corrective action. Both boards also establish parameters for water accountability.

The Comptroller is responsible for the audit of state, county, municipal, and other local government entities, as well as recipients of grant funds. Three audit-related divisions make up what is commonly referred to as the Department of Audit:

- The Division of State Audit conducts financial and compliance audits, performance audits, information systems audits, and special studies to provide objective information about the state's financial condition and the performance of state agencies and programs. The division also audits the state's *Comprehensive Annual Financial Report* and performs the annual Single Audit of the State of Tennessee.
- The Division of Local Government Audit executes the annual audits for 90 of the state's 95 counties and ensures the performance of approximately 1,500 audits for the state's remaining counties, municipalities, public internal school funds, charter schools, utility districts, housing authorities, local-government-related entities, quasi-governmental organizations, and other government-funded agencies. In addition to generally accepted government auditing standards, statutes, and reporting requirements, the division prescribes additional standards for county audits conducted by public accounting firms.
- The Division of Investigations investigates allegations of fraud, waste, and abuse in government and publicly funded entities. The division also works with law enforcement and prosecutors on criminal allegations.

The Division of Property Assessments ensures effective administration of Tennessee's property taxes. The division offers local governmental officials assistance with reappraisal programs; data processing services; and the Property Tax Relief Program, which distributes tax relief to low-income elderly or disabled homeowners and disabled veteran homeowners or their surviving spouses. The division manages property tax billing services for 84 counties whose tax records are maintained on the state's computer system. It also administers the Assessment Certification and Education Program for assessors and their staff. The division includes the Office of Local Government, which develops and uses Geographic Information Systems (GIS) technology to help the Division of Property Assessment and local property assessors in daily

operations. The office also serves as a liaison to the U.S. Census Bureau's Local Redistricting Data Program. By using census data, the office produces local maps and publishes county commission district and voting precinct maps.

The Office of State Assessed Properties conducts annual appraisals, assessments, and audits of public utility and transportation properties as prescribed. These assessments are certified to counties, cities, and other taxing jurisdictions for billing and collection of property taxes.

The State Board of Equalization, consisting of the Governor, Commissioner of Revenue, Comptroller of the Treasury, State Treasurer, Secretary of State, and two appointees of the Governor, is housed within the Comptroller's Office for administrative purposes. The board provides legal and quasi-judicial review of property tax assessments, exemptions, and tax incentive programs. In addition to establishing rules, policies, manuals, and guidelines for property tax assessments and administering property tax appeal hearings in conjunction with the Assessment Appeals Commission and the administrative law judges in the Secretary of State's Office, the board reviews property tax exemption applications and renders decisions for religious, charitable, scientific, and nonprofit educational institutions. The board also ensures local governments' compliance with the laws governing certified tax rates and tax incentive programs.

The Office of State and Local Finance manages the state's debt programs and provides assistance, oversight, and review for certain debt issuances, budgets, and investments of local governmental entities. The office serves as staff to the Tennessee State Funding Board, the Tennessee Local Development Authority, and the Tennessee State School Bond Authority. Additionally, the office issues and manages the state's debt for these entities and aids local governments in implementing financial stability plans.

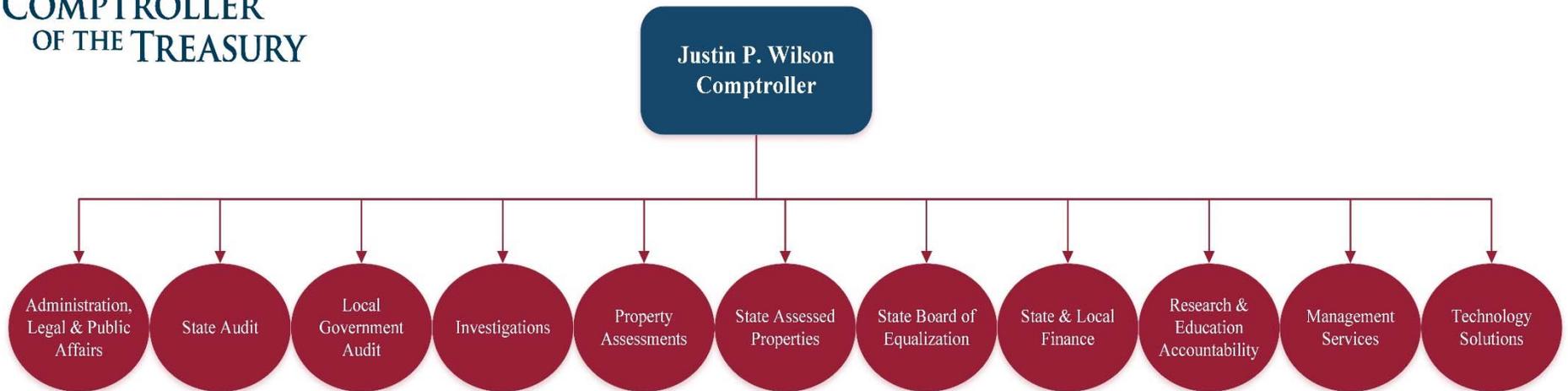
The Offices of Research and Education Accountability prepare reports on various state and local government issues at the request of the Comptroller and the General Assembly. The office monitors the performance of Tennessee's elementary and secondary school systems and presents the General Assembly with reports on selected education topics. Included in the Offices of Research and Education Accountability is the Office of the Higher Education Resource Officer (HERO), which helps resolve issues; answers questions; and provides information to faculty, staff, or employees of Tennessee's higher education systems and institutions. The HERO also reviews and evaluates higher education policy.

The Office of Management Services provides administrative and support services to the divisions and offices of the Comptroller's Office in the areas of budgetary and financial management, facilities management, and human resources management. The office assists the Comptroller in policy and contract matters, supplies staff support for several boards and commissions, and provides procurement oversight services to other state agencies.

The Division of Technology Solutions (DoTS) provides services in systems analysis and development, computer operations, PC support, network support, and other computer-related areas on a centralized basis for all divisions and boards in the Comptroller's Office. DoTS is responsible for preparing the annual *Three Year Information Systems Plan* for the Comptroller's Office, which in turn becomes a part of the overall *State Information Systems Plan*.

An organizational chart of the Office of the Comptroller of the Treasury is on the following page.

**Office of the Comptroller of the Treasury
Organizational Chart
Effective September 1, 2018**



AUDIT SCOPE

We have audited the Office of the Comptroller of the Treasury for the period July 1, 2017, through June 30, 2018.² Our audit scope included a review of internal control and compliance with laws, regulations, policies, and procedures in the areas of the Division of Technology Solutions, the Division of Local Government Audit, and the Office of Management Services. Management of the Office of the Comptroller of the Treasury is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Our sample results may provide perspective; however, because the samples are nonstatistical, the sample results should not be projected to determine the likely impact on the populations. We present more detailed information about our methodologies in the individual report sections.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

There were no audit findings in the prior audit report dated January 2018.

AUDIT CONCLUSIONS

DIVISION OF LOCAL GOVERNMENT AUDIT

The Division of Local Government Audit executes the annual audits for 90 of the state's 95 counties and ensures the performance of approximately 1,500 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

² See footnote 1.

government-funded agencies. The division establishes standards for county audits conducted by public accounting firms and assists local governments with financial administration questions.

The division also approves contracts for the audits conducted by Certified Public Accountants (CPAs). Division staff review audit reports and selected audit working papers of CPAs for compliance with generally accepted government auditing standards, reporting requirements, state and federal statutes, and certain standards prescribed by the Comptroller of the Treasury. If egregious deficiencies are noted during the review of the working papers, the reviewer will add the firm to a spreadsheet that tracks firms needing discussion on further evaluation and potential discipline. Discussions to determine further evaluations are the responsibility of the Team Evaluation Committee, which is comprised of senior members of the division. The division publishes on the Comptroller's website the *Comptroller's Guidelines: Evaluation of Contract Auditors With Deficient Peer Review/Audit Documentation Review*, which list possible consequences for a firm with a deficient audit documentation review. The firm may be required to

- undergo more audit documentation reviews;
- undergo additional reviews by other CPA firms;
- complete additional Continued Professional Education;
- limit its audits to a specific number and type;
- undergo an audit documentation review before it can release audit reports;
- honor only current contracts and not approve future contracts;
- rescind outstanding contracts; and
- report to the State Board of Accountancy for further discipline.

To recover the costs associated with the division's audits of local governments, Section 9-3-210, *Tennessee Code Annotated*, provides the division the authority to collect 36 cents for each person who lives in the county based on the most recent federal census data; beginning July 1, 2017, this rate increases annually by 3%. The Division of Local Government Audit calculates the amount owed by each county and then submits it to the Office of Management Services' Fiscal Services Division to bill and collect funds, which local governments should pay on or before June 30 of each year.

Audit Results

1. Audit Objective: Does the Division of Local Government Audit have a documented process for monitoring CPAs who are contracted to complete local government audits?

Conclusion: The division does have a documented process for monitoring CPAs.

2. Audit Objective: Does the Division of Local Government Audit have a responsibility to, and does it, review contract CPA firm reports, specifically for indicators of potential fraud, waste, and abuse?

Conclusion: The division has a responsibility to review contracted CPA firm reports, and it reviewed the reports for indicators of potential fraud, waste, and abuse.

3. Audit Objective: Does the Division of Local Government Audit have authority to, and does it, take action if it finds a CPA firm is performing subpar work or has missed easily identifiable errors or fraud, waste, and abuse indicators?

Conclusion: While the division is not required to perform reviews of the CPA firms that contract with the state to perform audits, it does so to ensure that the work conducted by the firms on behalf of the state meets *Government Auditing Standards*; “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, *Code of Federal Regulations*, Part 200, Subpart F; and the Comptroller’s Audit Manual. If the division finds CPA firms have not performed adequately, the division is not required but has the contractual authority to prevent the CPA firm from entering into future contracts with the Comptroller’s Office or may report the CPA firm to the State Board of Accountancy if any grievous errors are found. The State Board of Accountancy determines appropriate actions to take against a CPA firm performing subpar work. During the period reviewed, the division did not ban any firms from future contracts. Also, while the division currently requires some firms to get a pre-issuance review before submitting their reports, and has asked some for corrective action plans for past issues, the division has reported only minor issues to the State Board of Accountancy; none were serious enough to require disciplinary action.

4. Audit Objective: Does the Division of Local Government Audit have a process to ensure that counties are billed timely and accurately based on any planned rate increases?

Conclusion: The division has a process to ensure counties are billed timely and accurately, based on the annual billing rate increase.

Methodologies To Achieve Objectives

To gain an understanding of the Division of Local Government Audit’s responsibilities, we interviewed the Director of Local Government Audit, the Assistant Director over contract audits, and the Assistant Director over the county audit billing process. We obtained the desk review and working paper review monitoring checklists, which are used to evaluate the status of the CPA firms under review, to ensure the checklists directed the reviewers to look for fraud indicators and unusual items. We then selected a random sample of 25 desk reviews from a total

population of 1,673 desk reviews performed during our audit period, July 1, 2017, through June 30, 2018. We performed testwork to ensure that the division followed up on any fraud indicators or unusual items noted and that the division completed all items on the checklist. We tested all 25 desk reviews and 6 working paper reviews performed during our audit period for the same criteria. We also performed testwork for all 90 county audits billed during our audit period to ensure the amount billed was timely, accurate, and reflected the most recent billing rate increase.

OFFICE OF MANAGEMENT SERVICES

The Office of Management Services (OMS) provides administrative and support services to the Comptroller's divisions. These services include

- budgetary and financial management,
- facilities management, and
- human resources management.

OMS provides administrative and support services to the state's Central Procurement Office, which is housed in the Tennessee Department of General Services.

OMS assists the Comptroller in policy and contract matters and also provides procurement oversight and staff support as a member of the

- State Building Commission,
- Procurement Commission,
- Advisory Council on State Procurement,
- Certification Committee, and
- Board of Claims.

Although it is not required to, OMS maintains a list of all individuals working for the Comptroller's Office who are trained in performing cardiopulmonary resuscitation (CPR) and using an Automated External Defibrillator (AED). The list is posted on the intranet site for staff to use.

OMS is also responsible for performing an annual inventory of assets, which includes identifying assets that are ready for surplus or have been lost. After the inventory process is complete, OMS staff work with the Department of General Services to dispose of these assets.

Audit Results

- 1. Audit Objective:** Does OMS' contract review team follow a consistent process to review contracts and procurements as prescribed by Section 4-56-108, *Tennessee Code Annotated*?

Conclusion: The contract review team follows a consistent process to review all contracts and procurements required by statute.

- 2. Audit Objective:** As a benefit to all employees in the event of a medical emergency, does OMS maintain, update, and make available a list of employees who are trained in CPR and AED?

Conclusion: During our audit scope, the Comptroller’s Office Policy B.001, “Medical Emergencies During Working Hours,” required OMS to maintain a list of employees who are trained in CPR and AED; however, the policy instructs employees to call 911 in case of emergency for assistance on the best way to manage the situation. Employees choosing to use the CPR and AED devices would do so at their own discretion and initiative.

- 3. Audit Objective:** Did OMS properly identify equipment that was lost or needed to be disposed of and communicate those items to the Department of General Services throughout the year?

Conclusion: OMS did properly identify equipment that was lost or needed to be disposed of and communicated those items to the Department of General Services.

Methodologies To Achieve Objectives

We interviewed the Director of OMS, the Assistant Director of OMS, and the Procurement Compliance Manager. We performed a walkthrough and had multiple discussions related to the procurement/contract review process with the Procurement Compliance Manager. We obtained the list of employees trained in CPR/AED and tested the accuracy of all information included on the list.

We also performed walkthroughs of the equipment disposal process. From a population of 2,590 equipment items in the asset database noted as disposed of, we performed testwork on a random sample of 25 equipment items that OMS disposed of during our audit period, July 1, 2017, through June 30, 2018. We tested the sample to determine whether OMS disposed of these assets according to Comptroller and state policies. We also tested all 14 of the items designated as “missing” in the asset database system during our audit period to ensure they were documented properly and removed from the inventory of assets.

APPENDICES

APPENDIX 1 Business Unit Codes

Business Unit Code	Division/Office
307.01	Division of Administration
307.02	Office of Management Services
307.04	Division of State Audit
307.05	Division of Local Government Audit
307.06	Legal and Public Affairs
307.07	Office of State and Local Finance
307.09	Division of Property Assessments
307.10	Tax Relief Program
307.11	State Board of Equalization
307.14	Offices of Research and Education Accountability
307.15	Office of State Assessed Properties
307.16	Division of Technology Solutions

Source: Office of the Comptroller, Assistant Director for Fiscal Services.

APPENDIX 2 Boards, Commissions, and Committees

The Comptroller of the Treasury is by statute a member of the following boards, commissions, and committees:

Board, Commission, or Committee	<i>Tennessee Code Annotated</i>
Advisory Council on State Procurement*	4-56-106
Basic Education Program Review Committee	49-1-302
Board of Claims	9-8-101
Chairs of Excellence Endowment Fund	49-7-501
Council on Children's Mental Health [Care]*	37-3-111
Council on Pension and Insurance†	3-9-101
Emergency Communications Board	7-86-302
Health Services and Development Agency	68-11-1604
Information Systems Council†	4-3-5501
Local Education Insurance Committee	8-27-301
Local Government Insurance Committee	8-27-701
Ocoee River Recreation and Economic Development Fund Board	11-8-104
Pension Stabilization Reserve Trust	9-4-1002
Procurement Commission†	4-56-102

Board, Commission, or Committee	<i>Tennessee Code Annotated</i>
Public Records Commission	10-7-302
State Board of Equalization†	4-3-5101
State Building Commission†	4-15-101
State Capitol Commission	4-8-301
State Funding Board†	9-9-101
State Insurance Committee	8-27-201
Tennessee Advisory Commission on Intergovernmental Relations†	4-10-103
Tennessee College Savings Trust	49-7-804
Tennessee Consolidated Retirement System Board of Trustees†	8-34-302
Tennessee Higher Education Commission†	49-7-204
Tennessee Highway Officials Certification Board*	54-7-104
Tennessee Housing Development Agency	13-23-106
Tennessee Interagency Cash Flow Committee*	9-4-610
Tennessee Local Development Authority	4-31-103
Tennessee Promise Scholarship Endowment Fund	49-4-708
Tennessee State School Bond Authority	49-3-1204
Tennessee Student Assistance Corporation	49-4-202
TRICOR Board Certification Committee*	41-22-119
Tuition Guaranty Fund Board	49-7-2018
Utility Management Review Board	7-82-701
Water and Wastewater Financing Board	68-221-1008
Workers Compensation Insurance Fund Board Review Committee‡	50-6-623

* The Comptroller does not serve but appoints staff representative(s).

† Comptroller only, no proxy.

‡ Inactive.

Source: Office of the Comptroller of the Treasury, Assistant to the Comptroller for Public Finance.

Additionally, the Comptroller appoints a designee for the nonprofit Local Government Data Processing Corporation Board pursuant to the terms of its charter.