Stay Current, Stay Compliant: Contract Audit Review Updates

Tim Hardy and Matt Piland

Division of Local Government Audit

10.28.26

TENNESSEE COMPTROLLER OF THE TREASURY

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Disclaimer

The opinions expressed during this presentation are our own. They do not necessarily represent the views of the Tennessee Comptroller of the Treasury, his representatives, or the Division of Local Government Audit.

TENNESSEE COMPTROLLER OF THE TREASURY

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Today's Topics

- Comptroller's Office
- CMFO/CCFO Reporting
- Written Attestation
- TAG Website
- Manual Updates
  - Audit Manual
  - Internal Control Manual

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

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The Tennessee Comptroller of the Treasury has a wide range of responsibilities to ensure fiscal integrity within the State of Tennessee. The Comptroller is essentially the state's Money Cop. We are committed to our mission to **Make Government Work Better.**

- Jason E. Mumpower, Comptroller of the Treasury

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

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Division of Local Government Audit

Bryan Burklin, CPA, CGFM
Director



- Audit Quality and Review
- Audit Operations
- Administration

TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

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Division of Local Government Audit

Lee Ann West, CPA, CGFM
Principal of Audit Operations



- County Field Auditors
- Information System Auditors
- Contract Audit Review Team

TENNESSEE COMPTROLLER OF THE TREASURY

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Division of Local Government Audit

Jean Suh, CPA, CFE, CGFM
Contract Audit Review Manager



- Contract Approval
- Workpaper Review Determination
- Strategic Goal Monitoring
- Research/Consulting

TENNESSEE COMPTROLLER OF THE TREASURY

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Contract Audit Review Specialists

- Review Audited Financial Statements
- Assist Municipalities
- Monitor CMFO Compliance
- Update Manuals
- Provide Professional Development
- Manage CPA Firm Contracts
- Process Written Attestations
- Provide CARS Support



TENNESSEE COMPTROLLER OF THE TREASURY

TENNESSEE COMPTROLLER OF THE TREASURY

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Senior Contract Audit Review Specialists

Lisa Bellar, CPA, CGFM
Lisa.Bellar@cot.tn.gov
P: 615.401.7854

Timothy Hardy, CPA, CFE, CGFM
Timothy.Hardy@cot.tn.gov
P: 615.401.3039

Project Assistant
Tammy Steele
Tammy.Steele@cot.tn.gov
P: 615.401.7909

Division of Local Government Audit

Contract Audit Contact Information by Area

425 Rep. John Lewis Way N., Nashville, TN 37243
P: 615.401.7841 • F: 615.741.6216

TENNESSEE COMPTROLLER OF THE TREASURY

Director
Bryan Burklin, CPA, CGFM
Bryan.Burklin@cot.tn.gov

Principal of Audit Operations
Lee Ann West, CPA, CGFM
Lee.Ann.West@cot.tn.gov

Contract Audit Manager
Jean Suh, CPA, CGFM, CFE
Jean.Suh@cot.tn.gov



AREA 7
Sue Ann Odom, CMFO
Contract Audit Review Specialist
Sue.Odom@cot.tn.gov
P: 615.401.7738

AREA 5
Matt Piland, CMFO, CGFM
Contract Audit Review Specialist
Matt.Piland@cot.tn.gov
P: 615.401.7889

AREA 3
Shania Leonard
Contract Audit Review Specialist
Shania.Leonard@cot.tn.gov
P: 615.401.7853

AREA 1
Bethany Wilson, CPA, CMFO
Contract Audit Review Specialist
Bethany.Wilson@cot.tn.gov
P: 615.747.8807

AREA 8
Sara Pope, CPA, CMFO, CGFM
Contract Audit Review Specialist
Sara.Pope@cot.tn.gov
P: 615.401.3051

AREA 6
Lori Cantrell, CPA
Contract Audit Review Specialist
Lori.Cantrell@cot.tn.gov
P: 615.241.6066

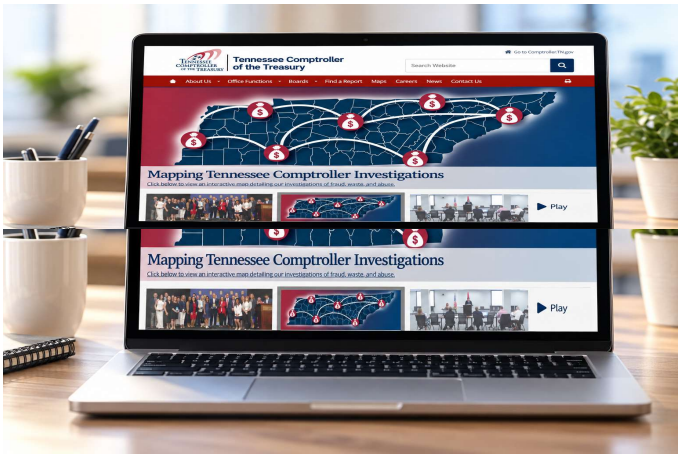
AREA 4
Justin Garcia, CGFM
Contract Audit Review Specialist
Justin.Garcia@cot.tn.gov
P: 615.401.7810

AREA 2
Mark Fawver, CGFM
Contract Audit Review Specialist
Mark.Fawver@cot.tn.gov
P: 615.747.8851

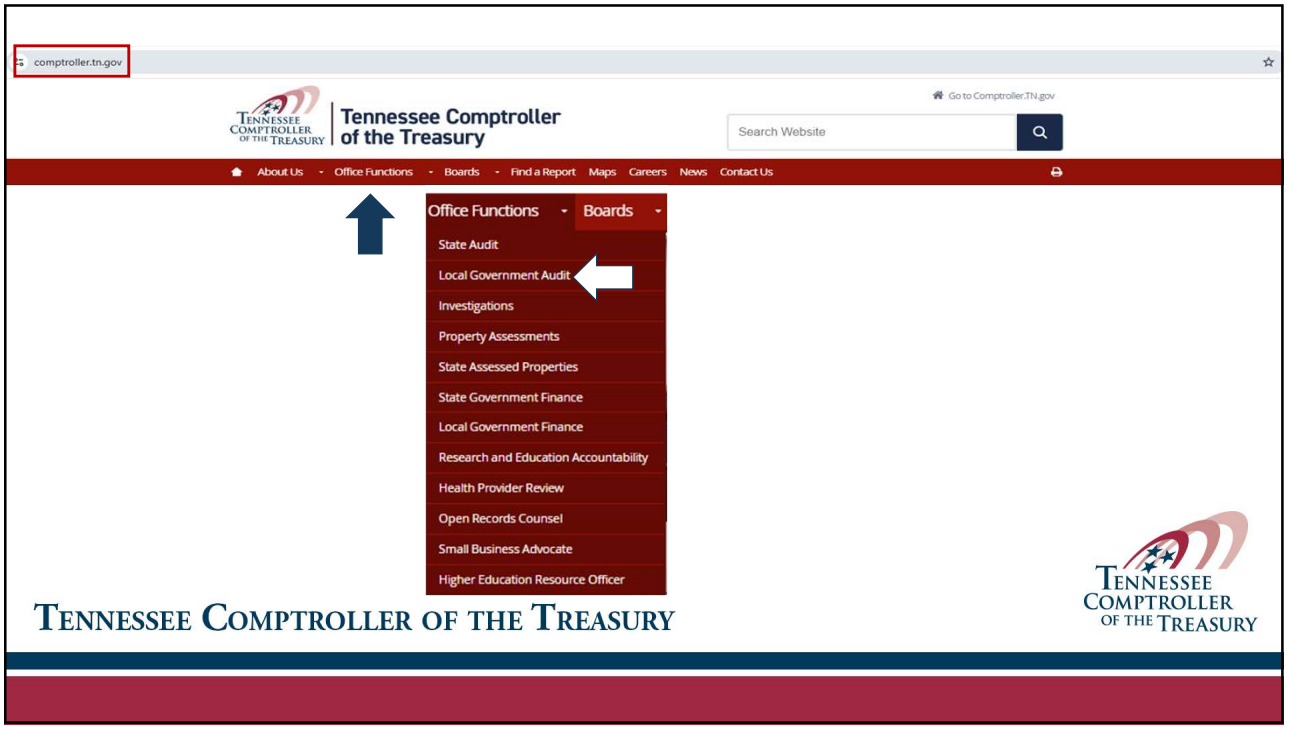
June 2026

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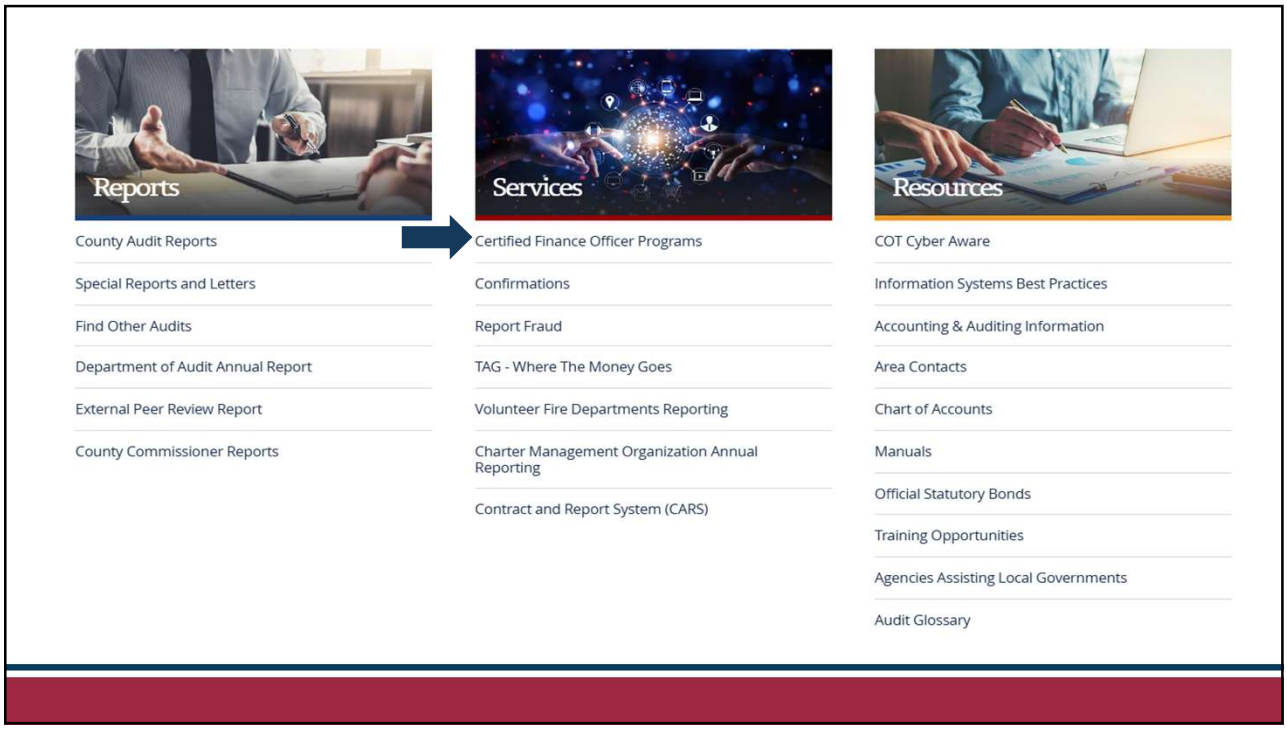
Navigating the Comptroller's Website



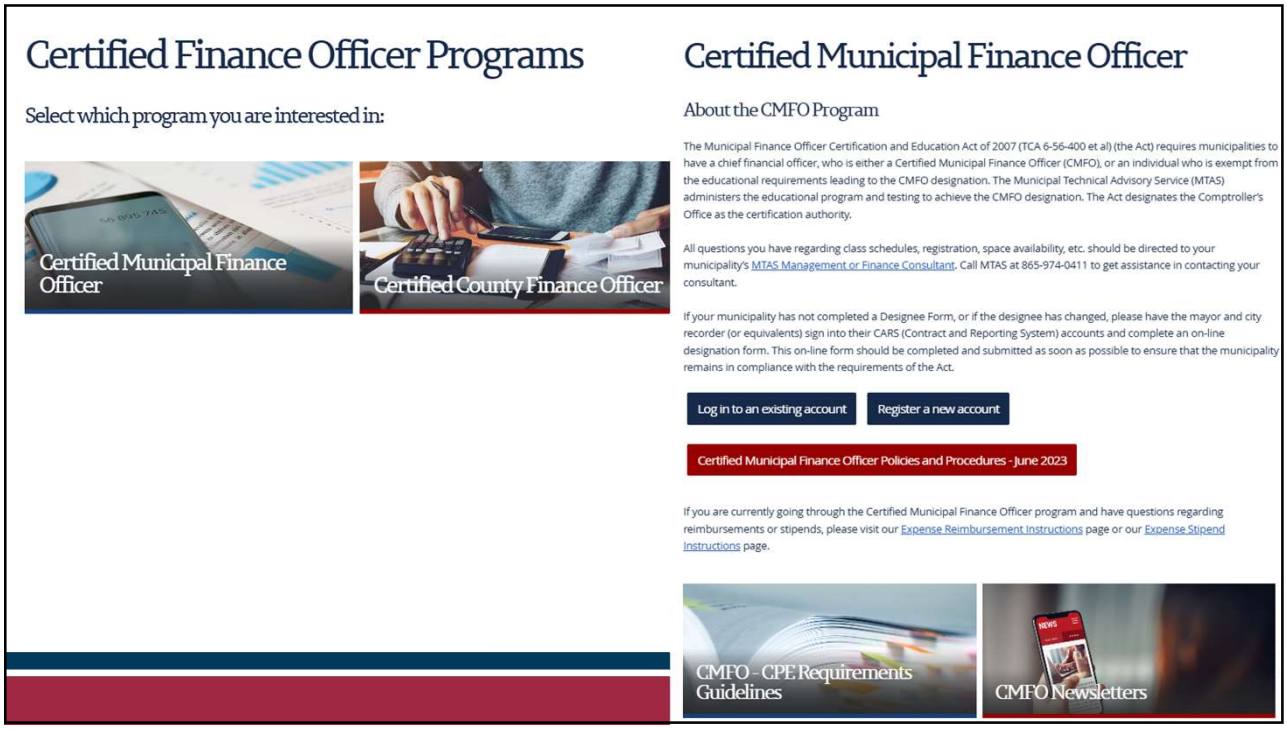
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Reports
Services
Resources
County Audit Reports
Special Reports and Letters
Find Other Audits
Department of Audit Annual Report
External Peer Review Report
County Commissioner Reports
Certified Finance Officer Programs
Confirmations
Report Fraud
TAG - Where The Money Goes
Volunteer Fire Departments Reporting
Charter Management Organization Annual Reporting
Contract and Report System (CARS)
COT Cyber Aware
Information Systems Best Practices
Accounting & Auditing Information
Area Contacts
Chart of Accounts
Manuals
Official Statutory Bonds
Training Opportunities
Agencies Assisting Local Governments
Audit Glossary

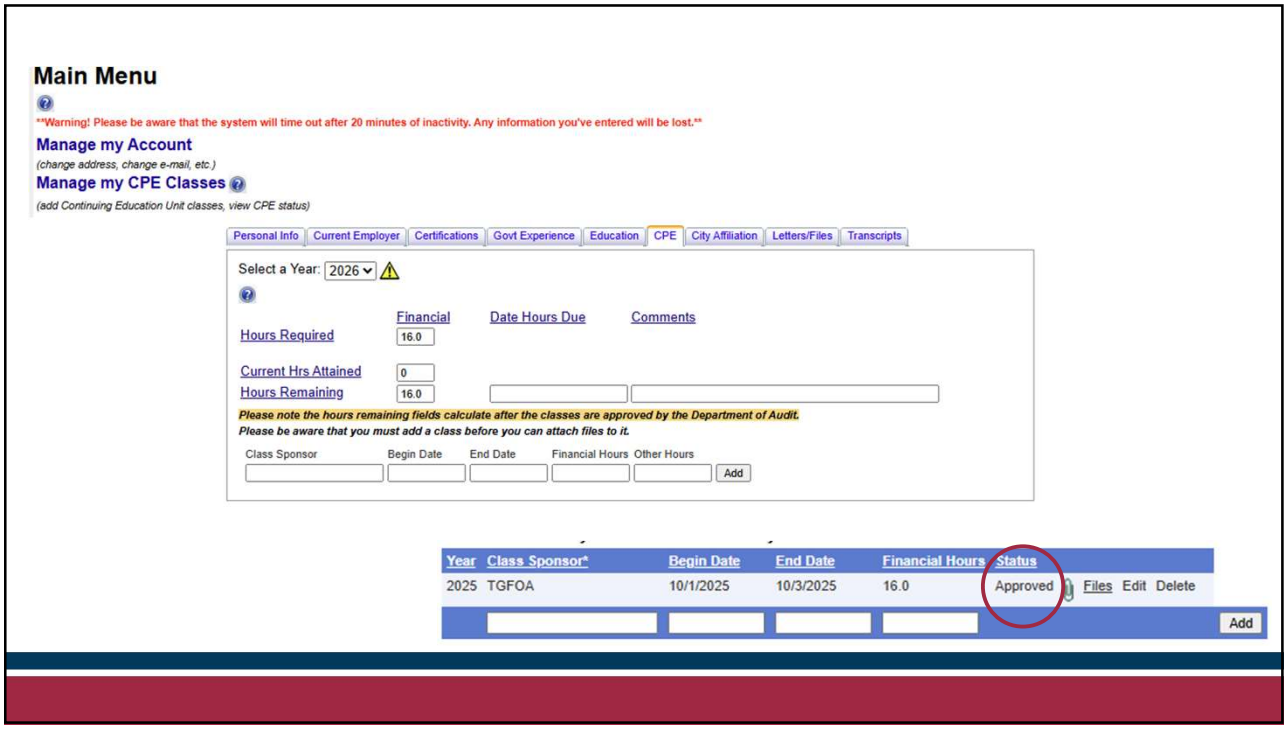
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Certified Finance Officer Programs
Select which program you are interested in:
Certified Municipal Finance Officer
Certified County Finance Officer
Certified Municipal Finance Officer
About the CMFO Program
The Municipal Finance Officer Certification and Education Act of 2007 (TCA 6-56-400 et al) (the Act) requires municipalities to have a chief financial officer, who is either a Certified Municipal Finance Officer (CMFO), or an individual who is exempt from the educational requirements leading to the CMFO designation. The Municipal Technical Advisory Service (MTAS) administers the educational program and testing to achieve the CMFO designation. The Act designates the Comptroller's Office as the certification authority.
All questions you have regarding class schedules, registration, space availability, etc. should be directed to your municipality's MTAS Management or Finance Consultant. Call MTAS at 865-974-0411 to get assistance in contacting your consultant.
If your municipality has not completed a Designee Form, or if the designee has changed, please have the mayor and city recorder (or equivalents) sign into their CARS (Contract and Reporting System) accounts and complete an on-line designation form. This on-line form should be completed and submitted as soon as possible to ensure that the municipality remains in compliance with the requirements of the Act.
Log in to an existing account
Register a new account
Certified Municipal Finance Officer Policies and Procedures - June 2023
If you are currently going through the Certified Municipal Finance Officer program and have questions regarding reimbursements or stipends, please visit our Expense Reimbursement Instructions page or our Expense Stipend Instructions page.
CMFO - CPE Requirements Guidelines
CMFO Newsletters

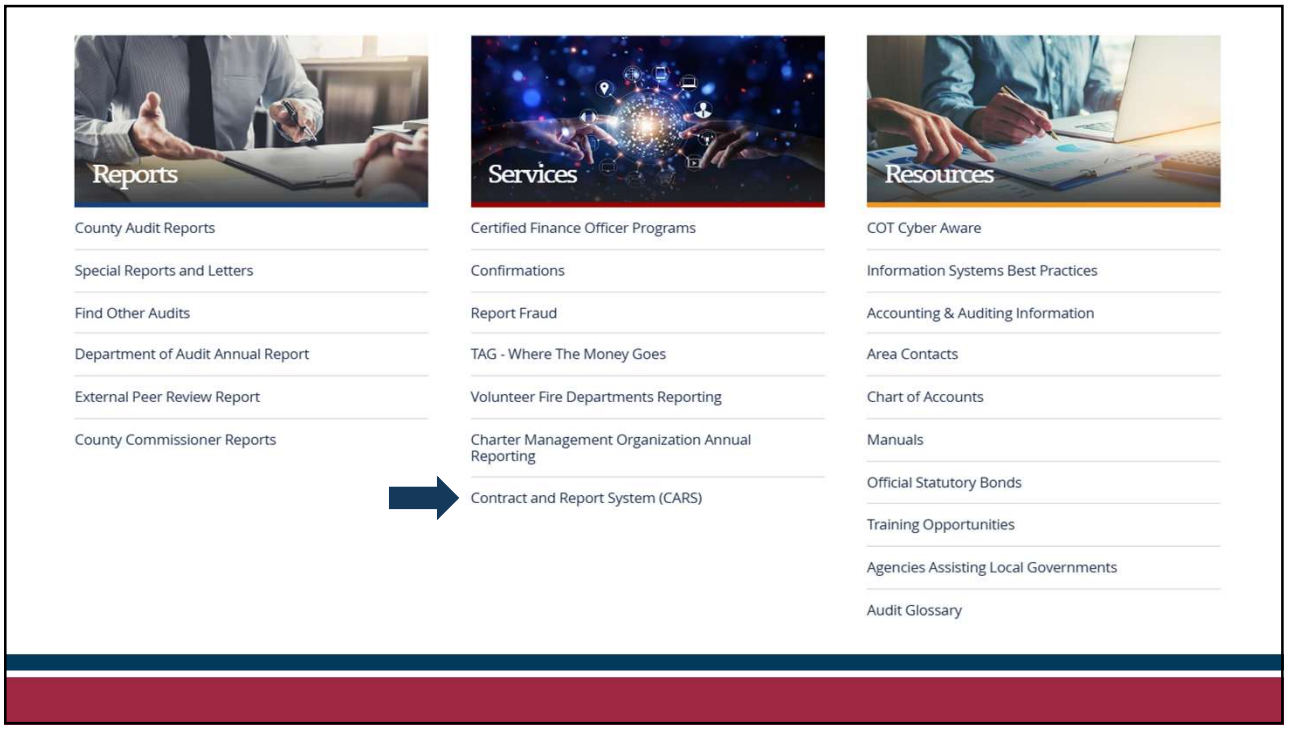
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Certified County Finance Officer
About the CCFO Program
The Comptroller of the Treasury and the University of Tennessee's County Technical Assistance Service (CTAS) have developed a program that will provide Tennessee's county financial officers an opportunity to learn about accounting and financial reporting principles, understand how county governments are structured in Tennessee, and enhance their skills in order to carry out their responsibilities for the fiscal affairs of their county or department. CTAS administers the educational program and testing to achieve the CCFO designation. The Comptroller's Office has been designated as the certification authority.
All questions regarding class schedules, registration, space availability, etc. should be directed to CTAS at 615-532-3555.
Login to an existing account
Register a new account
Certified County Finance Officer Policies
Certified County Finance Officer Newsletters

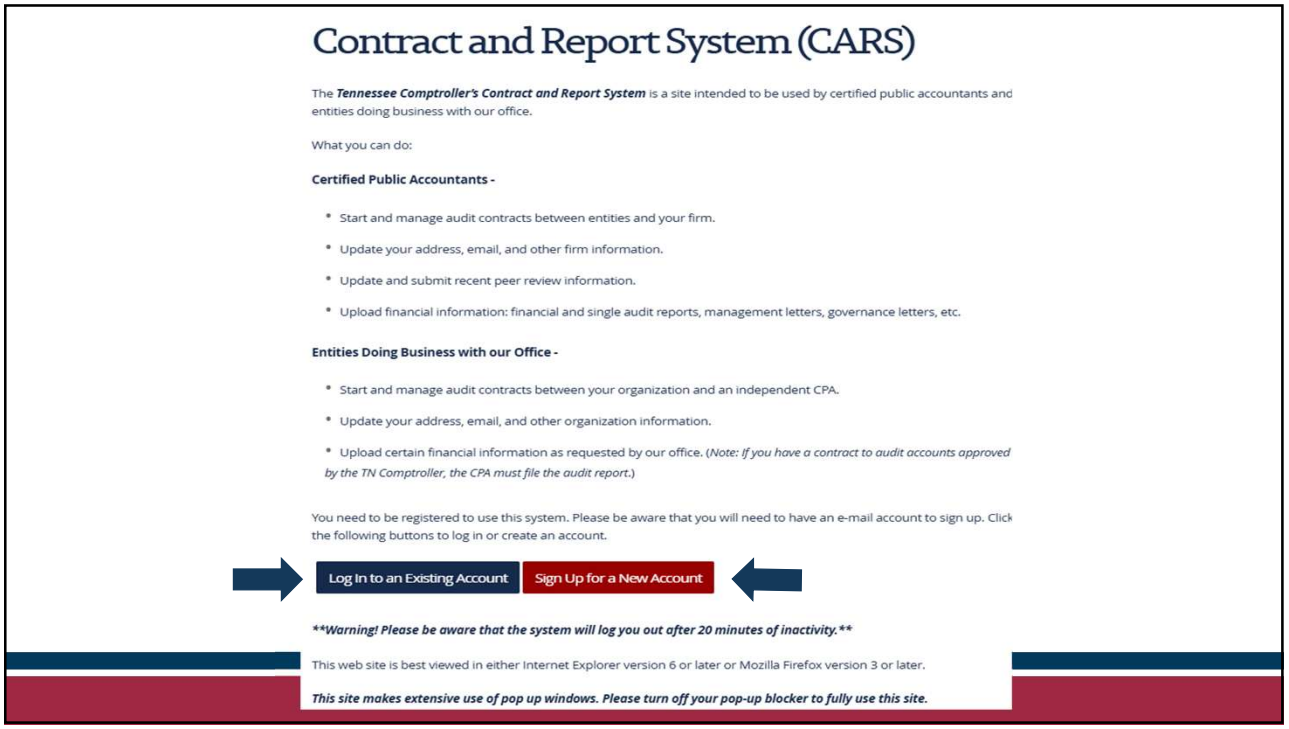
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Main Menu
Warning! Please be aware that the system will time out after 20 minutes of inactivity. Any information you've entered will be lost.
Manage my Account
(change address, change e-mail, etc.)
Manage my CPE Classes
(add Continuing Education Unit classes, view CPE status)
Personal Info
Current Employer
Certifications
Govt Experience
Education
CPE
City Affiliation
Letters/Files
Transcripts
Select a Year: 2026
Financial
Date Hours Due
Comments
Hours Required 16.0
Current Hrs Attained 0
Hours Remaining 16.0
Please note the hours remaining fields calculate after the classes are approved by the Department of Audit.
Please be aware that you must add a class before you can attach files to it.
Class Sponsor
Begin Date
End Date
Financial Hours
Other Hours
Add
Year
Class Sponsor*
Begin Date
End Date
Financial Hours
Status
2025 TGFOA 10/1/2025 10/3/2025 16.0 Approved Files Edit Delete
Add

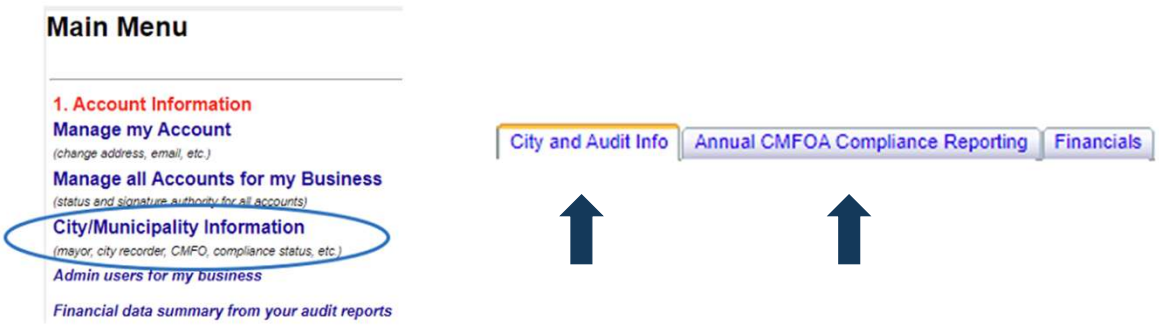
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Reports
Services
Resources
County Audit Reports
Special Reports and Letters
Find Other Audits
Department of Audit Annual Report
External Peer Review Report
County Commissioner Reports
Certified Finance Officer Programs
Confirmations
Report Fraud
TAG - Where The Money Goes
Volunteer Fire Departments Reporting
Charter Management Organization Annual Reporting
Contract and Report System (CARS)
COT Cyber Aware
Information Systems Best Practices
Accounting & Auditing Information
Area Contacts
Chart of Accounts
Manuals
Official Statutory Bonds
Training Opportunities
Agencies Assisting Local Governments
Audit Glossary

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Contract and Report System (CARS)
The Tennessee Comptroller's Contract and Report System is a site intended to be used by certified public accountants and entities doing business with our office.
What you can do:
Certified Public Accountants -
Start and manage audit contracts between entities and your firm.
Update your address, email, and other firm information.
Update and submit recent peer review information.
Upload financial information: financial and single audit reports, management letters, governance letters, etc.
Entities Doing Business with our Office -
Start and manage audit contracts between your organization and an independent CPA.
Update your address, email, and other organization information.
Upload certain financial information as requested by our office. (Note: If you have a contract to audit accounts approved by the TN Comptroller, the CPA must file the audit report.)
You need to be registered to use this system. Please be aware that you will need to have an e-mail account to sign up. Click the following buttons to log in or create an account.
Log In to an Existing Account
Sign Up for a New Account
Warning! Please be aware that the system will log you out after 20 minutes of inactivity.
This web site is best viewed in either Internet Explorer version 6 or later or Mozilla Firefox version 3 or later.
This site makes extensive use of pop up windows. Please turn off your pop-up blocker to fully use this site.

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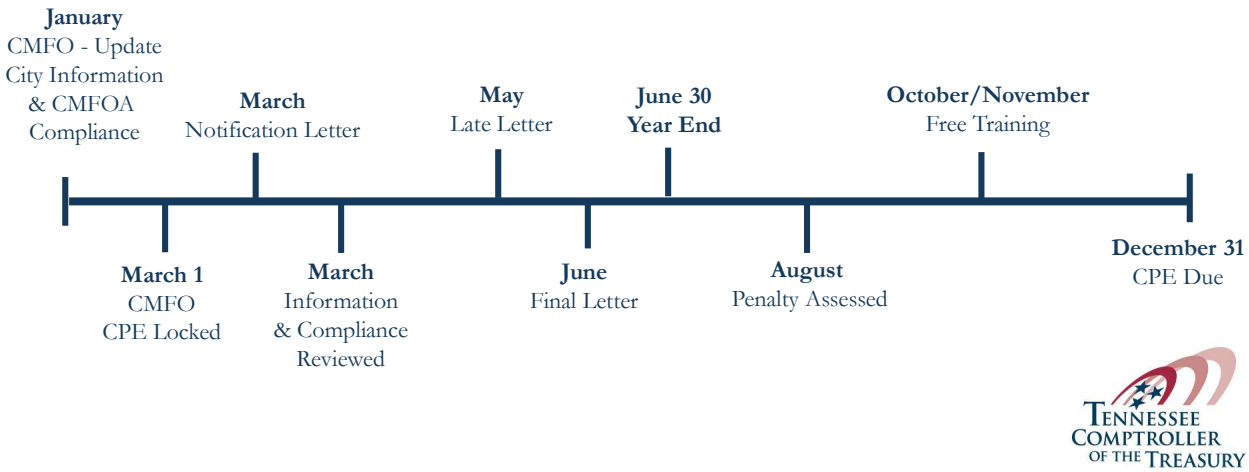
CMFO Penalties

Tennessee Code Annotated 6-56-407(a)

- Sales tax revenue collected and distributed by the state to the municipality shall be reduced by an amount mutually agreed upon by the comptroller of the treasury and the commissioner of revenue. The sales tax revenue reduction shall not exceed fifteen percent (15%) of the total amount due to the municipality in a fiscal year, until the municipality is in compliance with § 6-56-402;
- The amounts reduced as a penalty pursuant to this section shall be held in reserve by the department of revenue and allocated to the municipality after the municipality complies with § 6-56-402 as determined by the comptroller of the treasury.

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CMFO Timeline



TENNESSEE COMPTROLLER OF THE TREASURY

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Written Attestation

Written Attestations

Tennessee Code Annotated Sections 4-1-422, 5-1-135, 6-54-150, and 7-3-107

I _____, _____
(Printed Name) (Printed Title – Must be Executive Head of Political Subdivision)

attest that the _____
(Name of Political Subdivision)

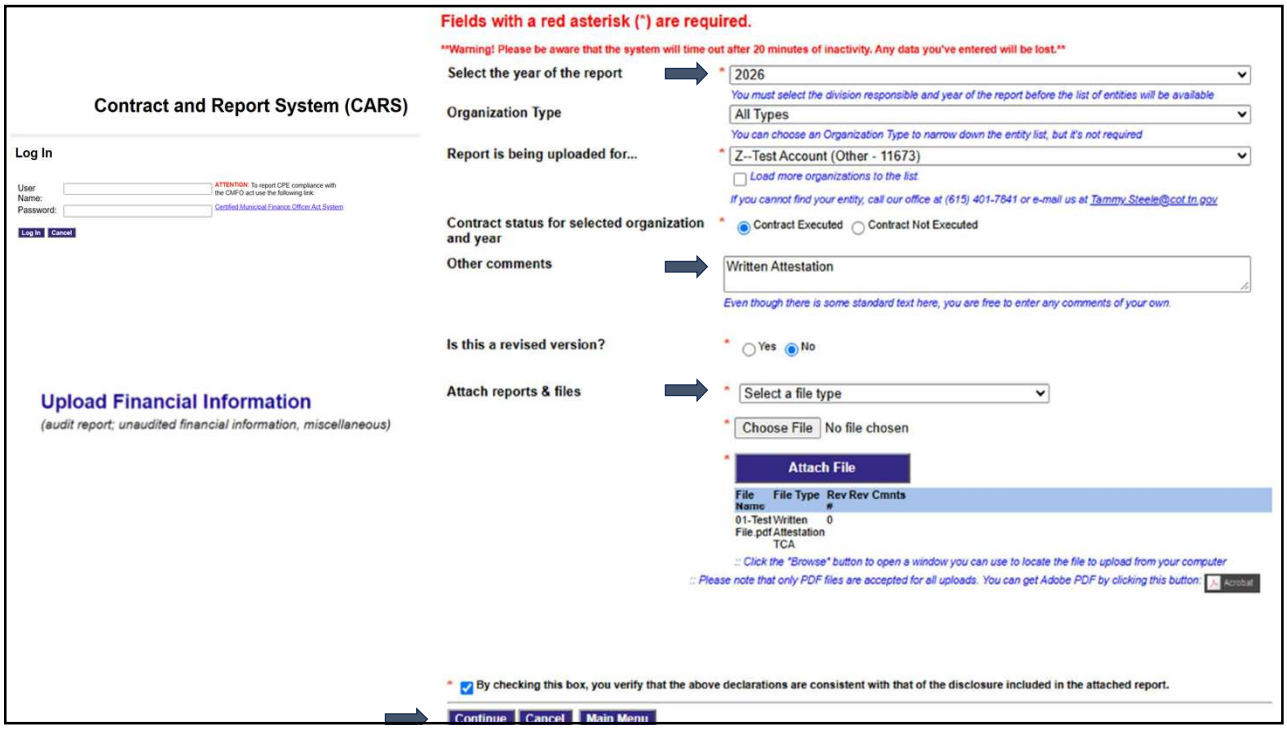
(a) has not sought or received a grant in intentional pursuit of a policy described under subsection (b) of Tennessee Code Annotated, § 4-1-422 for the fiscal year ended June 30, 2026; and

(b) has not used a discriminatory preference in an effort to increase diversity, equity, or inclusion or established or maintained an office, division, or department for such purposes in violation of Tennessee Code Annotated § 5-1-135, § 6-54-150, or § 7-3-107, as applicable to the political subdivision, from May 2025, through the date of this attestation.

_____
(Signature)

_____
(Date)

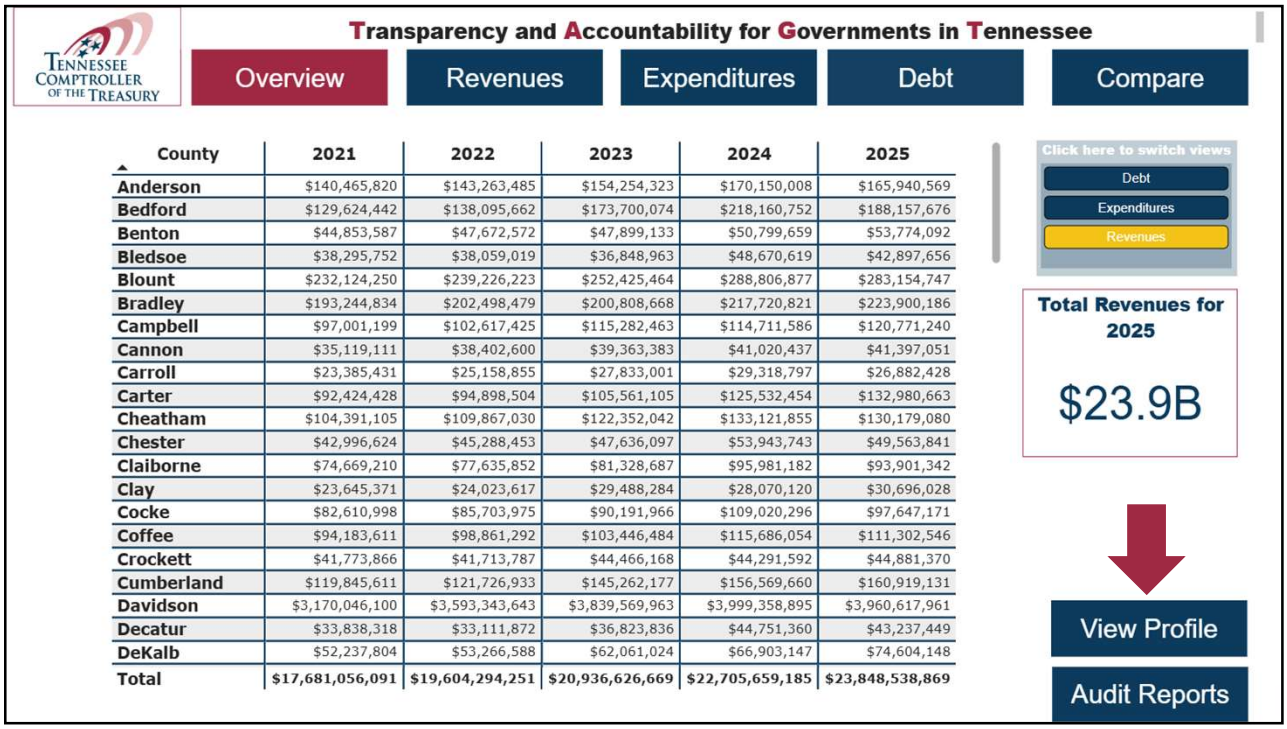
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Contract and Report System (CARS)
Log In
User Name:
Password:
Log In
Cancel
Upload Financial Information
(audit report; unaudited financial information, miscellaneous)
Fields with a red asterisk (*) are required.
Warning! Please be aware that the system will time out after 20 minutes of inactivity. Any data you've entered will be lost.
Select the year of the report
2026
You must select the division responsible and year of the report before the list of entities will be available
Organization Type
All Types
You can choose an Organization Type to narrow down the entity list, but it's not required
Report is being uploaded for...
Z--Test Account (Other - 11673)
Load more organizations to the list.
If you cannot find your entity, call our office at (615) 401-7841 or e-mail us at Tammy.Steele@cot.tn.gov
Contract status for selected organization and year
Contract Executed
Contract Not Executed
Other comments
Written Attestation
Even though there is some standard text here, you are free to enter any comments of your own.
Is this a revised version?
Yes
No
Attach reports & files
Select a file type
Choose File
No file chosen
Attach File
File Name
File Type
Rev #
Rev Cmnts
01-Test File.pdf
Written Attestation
TCA
0
:: Click the "Browse" button to open a window you can use to locate the file to upload from your computer
:: Please note that only PDF files are accepted for all uploads. You can get Adobe PDF by clicking this button.
By checking this box, you verify that the above declarations are consistent with that of the disclosure included in the attached report.
Continue
Cancel
Main Menu

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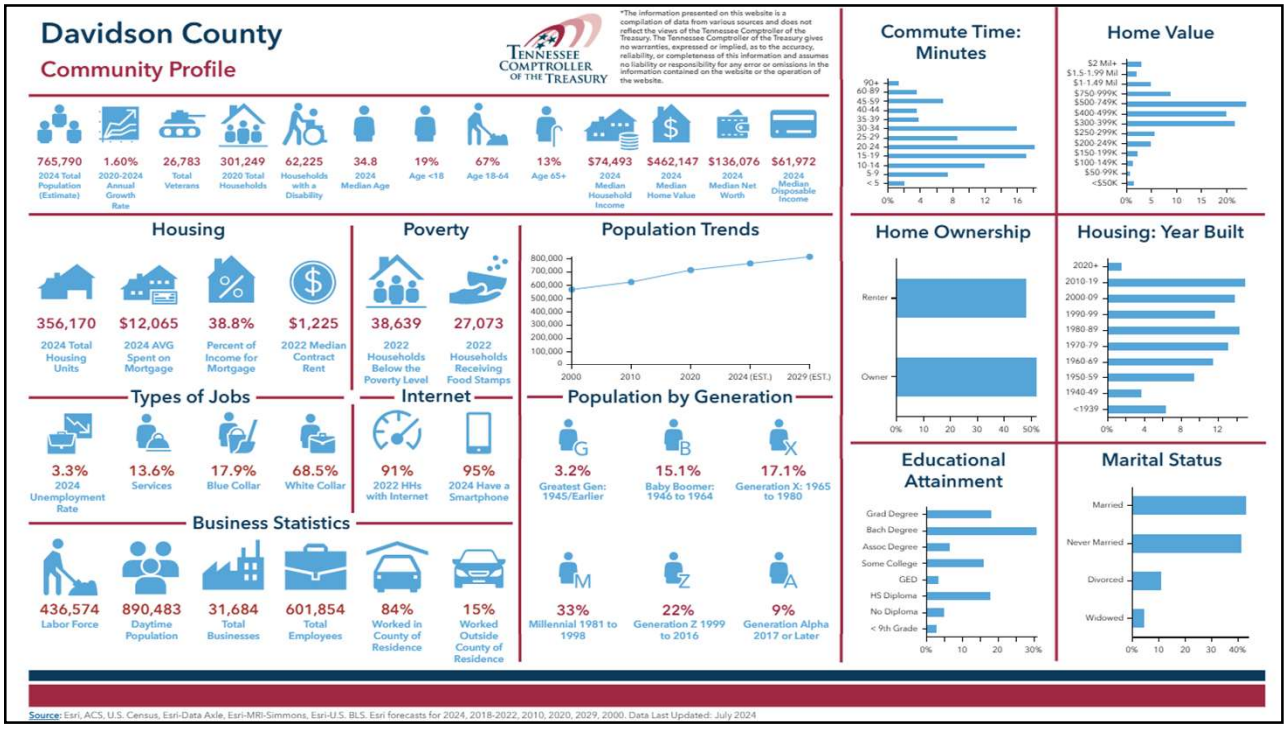

TAG
Transparency and Accountability for Governments in Tennessee
Reports
County Audit Reports
Special Reports and Letters
Find Other Audits
Department of Audit Annual Report
External Peer Review Report
County Commissioner Reports
Services
Certified Finance Officer Programs
Contract And Report System (CARS)
Confirmations
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Volunteer Fire Departments Reporting
Charter Management Organization Annual Reporting
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Information Systems Best Practices
Accounting & Auditing Information
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Training Opportunities
Agencies Assisting Local Governments
Audit Glossary

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County	2021	2022	2023	2024	2025
Anderson	$140,465,820	$143,263,485	$154,254,323	$170,150,008	$165,940,569
Bedford	$129,624,442	$138,095,662	$173,700,074	$218,160,752	$188,157,676
Benton	$44,853,587	$47,672,572	$47,899,133	$50,799,659	$53,774,092
Bledsoe	$38,295,752	$38,059,019	$36,848,963	$48,670,619	$42,897,656
Blount	$232,124,250	$239,226,223	$252,425,464	$288,806,877	$283,154,747
Bradley	$193,244,834	$202,498,479	$200,808,668	$217,720,821	$223,900,186
Campbell	$97,001,199	$102,617,425	$115,282,463	$114,711,586	$120,771,240
Cannon	$35,119,111	$38,402,600	$39,363,383	$41,020,437	$41,397,051
Carroll	$23,385,431	$25,158,855	$27,833,001	$29,318,797	$26,882,428
Carter	$92,424,428	$94,898,504	$105,561,105	$125,532,454	$132,980,663
Cheatham	$104,391,105	$109,867,030	$122,352,042	$133,121,855	$130,179,080
Chester	$42,996,624	$45,288,453	$47,636,097	$53,943,743	$49,563,841
Claiborne	$74,669,210	$77,635,852	$81,328,687	$95,981,182	$93,901,342
Clay	$23,645,371	$24,023,617	$29,488,284	$28,070,120	$30,696,028
Cocke	$82,610,998	$85,703,975	$90,191,966	$109,020,296	$97,647,171
Coffee	$94,183,611	$98,861,292	$103,446,484	$115,686,054	$111,302,546
Crockett	$41,773,866	$41,713,787	$44,466,168	$44,291,592	$44,881,370
Cumberland	$119,845,611	$121,726,933	$145,262,177	$156,569,660	$160,919,131
Davidson	$3,170,046,100	$3,593,343,643	$3,839,569,963	$3,999,358,895	$3,960,617,961
Decatur	$33,838,318	$33,111,872	$36,823,836	$44,751,360	$43,237,449
DeKalb	$52,237,804	$53,266,588	$62,061,024	$66,903,147	$74,604,148
Total	$17,681,056,091	$19,604,294,251	$20,936,626,669	$22,705,659,185	$23,848,538,869

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TAG

Transparency and Accountability for Governments in Tennessee

Transparency and Accountability for Governments in Tennessee

County TAG Dashboard | Municipal TAG Dashboard

Welcome to the Transparency and Accountability for Governments (TAG) in Tennessee website.

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Tennessee Comptroller of the Treasury

Transparency and Accountability for Governments in Tennessee

Overview | Comparison | Financial Detail

Select View

Revenues | Expenditures | Assets | Liabilities | Fund Balances

Filter by Population

All

Filter by Municipality

Multiple selections

Filter by Fund

All

NOTE: FY25 municipality data will be added as the audit reports become available.

Revenues

Municipality	2024	2025
Adams	$1,029,263	$1,227,852
Adamsville	$7,411,202	$7,561,097
Alamo	$10,506,268	$11,128,565
Alcoa	$202,700,713	$219,044,904
Alexandria	$1,711,594	$1,870,641
Algood	$8,357,378	$8,440,287
Altamont	$876,922	$882,411
Ardmore	$2,183,712	$2,036,255
Arlington	$96,716,804	$96,695,604
Athens	$100,389,442	$68,876,526
Atoka	$15,377,216	$14,891,768
Atwood	$1,136,546	$1,138,080
Auburntown	$120,161	$107,440
Baileyton	$1,069,531	$1,039,8
Bartlett	$247,803,538	$247,971,6
Beersheba Springs	$125,018	$134,347
Bell Buckle	$1,445,080	$1,716,489
Belle Meade	$7,331,090	$8,149,800
Bells	$9,259,823	$9,894,386
Total	**$15,307,543,466**	**$13,080,370,929**

Average Population

11,814

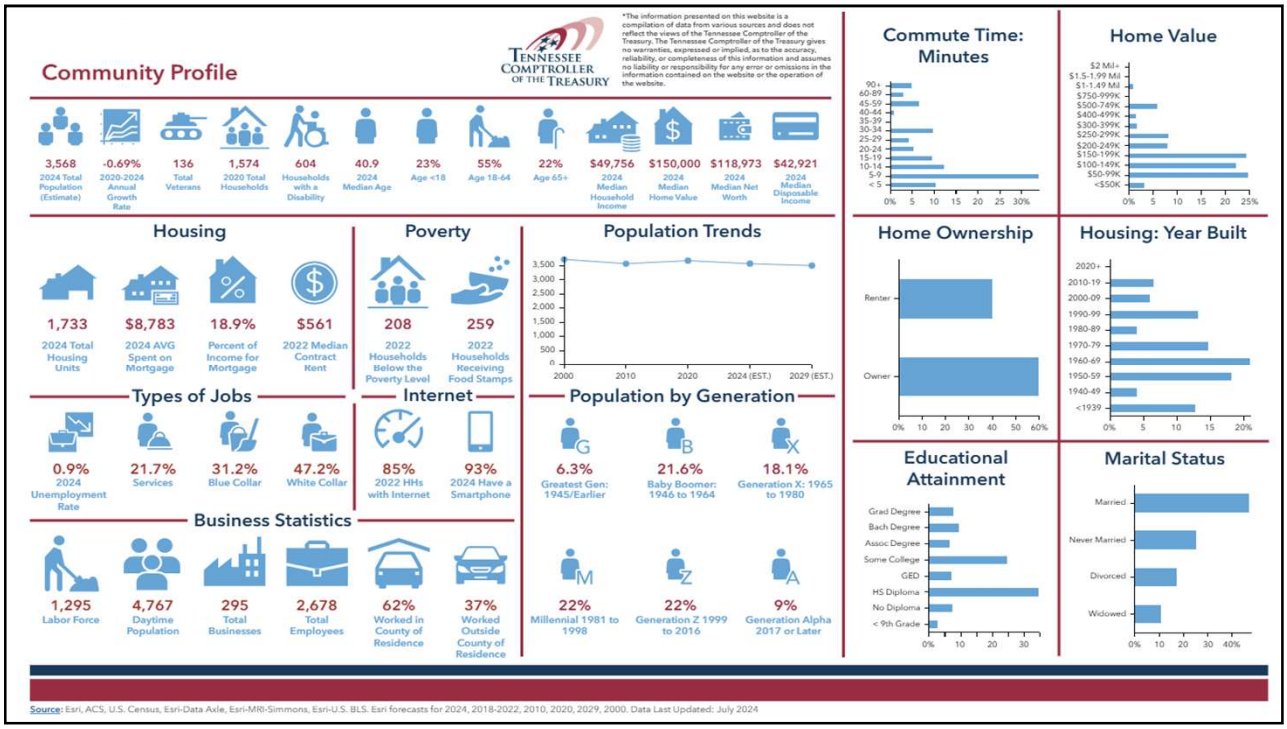
# of Municipalities

340

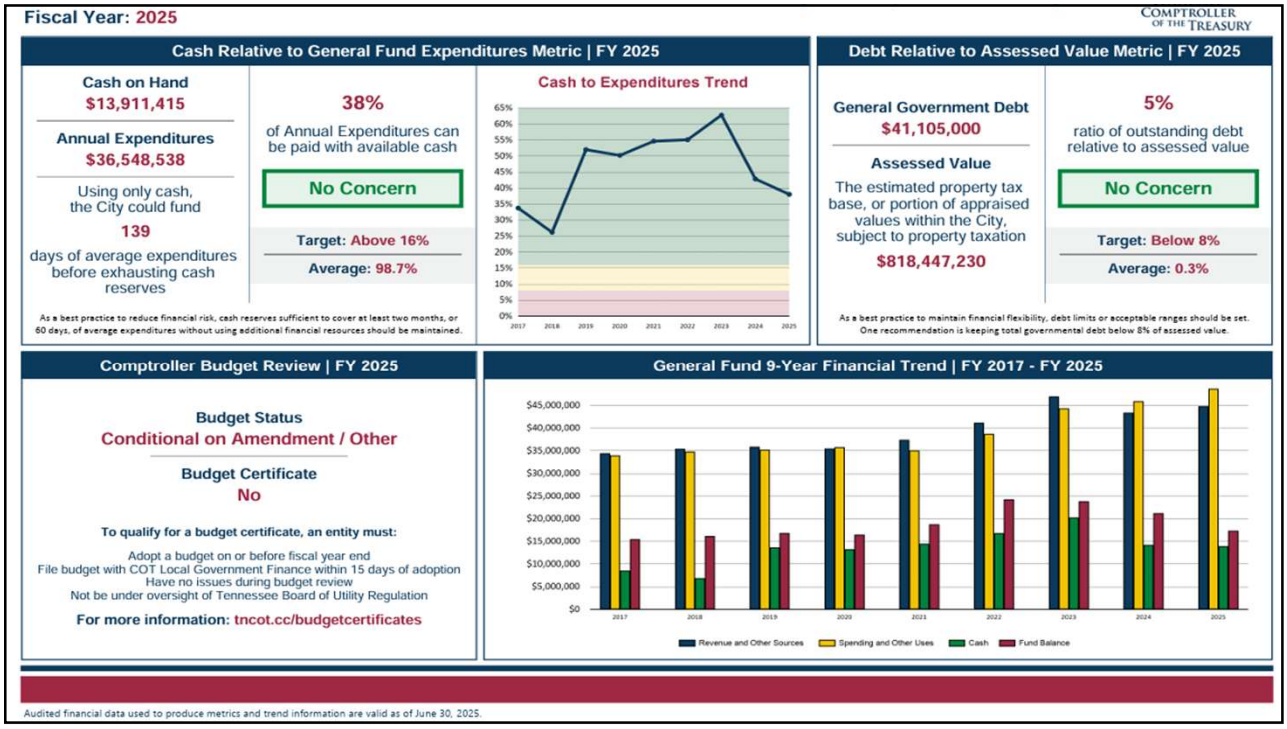
Select a municipality to navigate to one of these resources:

Audit Reports | Fiscal Metrics | Community Profile | City Information

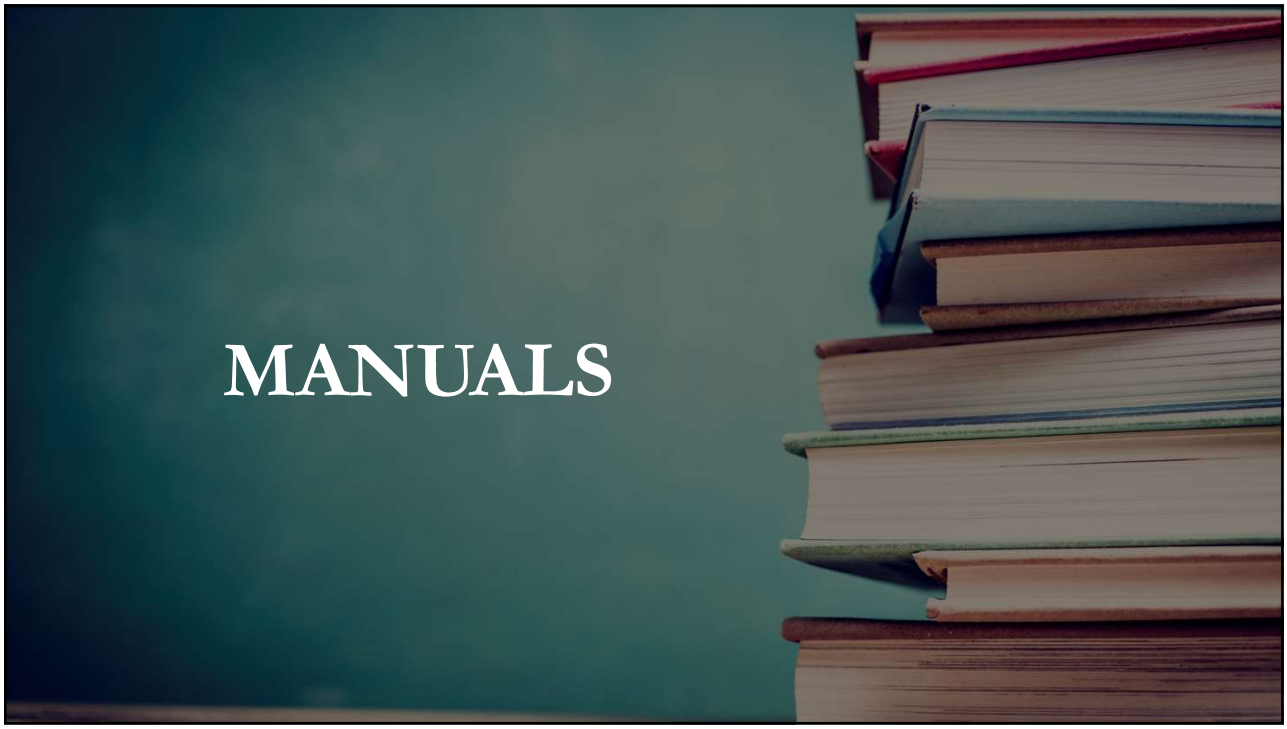
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Community Profile
Tennessee Comptroller of the Treasury
*The information presented on this website is a compilation of data from various sources and does not reflect the views of the Tennessee Comptroller of the Treasury. The Tennessee Comptroller of the Treasury gives no warranties, expressed or implied, as to the accuracy, reliability, or completeness of this information and assumes no liability or responsibility for any error or omissions in the information contained on the website or the operation of the website.
3,568 2024 Total Population (Estimate)
-0.69% 2020-2024 Annual Growth Rate
136 Total Veterans
1,574 2020 Total Households
604 Households with a Disability
40.9 2024 Median Age
23% Age <18
55% Age 18-64
22% Age 65+
$49,756 2024 Median Household Income
$150,000 2024 Median Home Value
$118,973 2024 Median Net Worth
$42,921 2024 Median Disposable Income
Housing
1,733 2024 Total Housing Units
$8,783 2024 AVG Spent on Mortgage
18.9% Percent of Income for Mortgage
$561 2022 Median Contract Rent
Poverty
208 2022 Households Below the Poverty Level
259 2022 Households Receiving Food Stamps
Population Trends
Types of Jobs
0.9% 2024 Unemployment Rate
21.7% Services
31.2% Blue Collar
47.2% White Collar
Internet
85% 2022 HHs with Internet
93% 2024 Have a Smartphone
Population by Generation
6.3% Greatest Gen: 1945/Earlier
21.6% Baby Boomer: 1946 to 1964
18.1% Generation X: 1965 to 1980
22% Millennial 1981 to 1998
22% Generation Z 1999 to 2016
9% Generation Alpha 2017 or Later
Business Statistics
1,295 Labor Force
4,767 Daytime Population
295 Total Businesses
2,678 Total Employees
62% Worked in County of Residence
37% Worked Outside County of Residence
Commute Time: Minutes
Home Value
Home Ownership
Renter
Owner
Housing: Year Built
Educational Attainment
Grad Degree
Bach Degree
Assoc Degree
Some College
GED
HS Diploma
No Diploma
< 9th Grade
Marital Status
Married
Never Married
Divorced
Widowed
Source: Esri, ACS, U.S. Census, Esri-Data Axle, Esri-MRI-Simmons, Esri-U.S. BLS. Esri forecasts for 2024, 2018-2022, 2010, 2020, 2029, 2000. Data Last Updated: July 2024

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Fiscal Year: 2025
Comptroller of the Treasury
Cash Relative to General Fund Expenditures Metric | FY 2025
Cash on Hand
$13,911,415
Annual Expenditures
$36,548,538
Using only cash, the City could fund
139
days of average expenditures before exhausting cash reserves
38%
of Annual Expenditures can be paid with available cash
No Concern
Target: Above 16%
Average: 98.7%
Cash to Expenditures Trend
As a best practice to reduce financial risk, cash reserves sufficient to cover at least two months, or 60 days, of average expenditures without using additional financial resources should be maintained.
Debt Relative to Assessed Value Metric | FY 2025
General Government Debt
$41,105,000
Assessed Value
The estimated property tax base, or portion of appraised values within the City, subject to property taxation
$818,447,230
5%
ratio of outstanding debt relative to assessed value
No Concern
Target: Below 8%
Average: 0.3%
As a best practice to maintain financial flexibility, debt limits or acceptable ranges should be set. One recommendation is keeping total governmental debt below 8% of assessed value.
Comptroller Budget Review | FY 2025
Budget Status
Conditional on Amendment / Other
Budget Certificate
No
To qualify for a budget certificate, an entity must:
Adopt a budget on or before fiscal year end
File budget with COT Local Government Finance within 15 days of adoption
Have no issues during budget review
Not be under oversight of Tennessee Board of Utility Regulation
For more information: tncot.cc/budgetcertificates
General Fund 9-Year Financial Trend | FY 2017 - FY 2025
Revenue and Other Sources
Spending and Other Uses
Cash
Fund Balance
Audited financial data used to produce metrics and trend information are valid as of June 30, 2025.

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Manuals



- County Audit Reports
- Special Reports and Letters
- Find Other Audits
- Department of Audit Annual Report
- External Peer Review Report
- County Commissioner Reports



- Certified Finance Officer Programs
- Contract And Report System (CARS)
- Confirmations
- Report Fraud
- TAG - Where The Money Goes
- Volunteer Fire Departments Reporting
- Charter Management Organization Annual Reporting



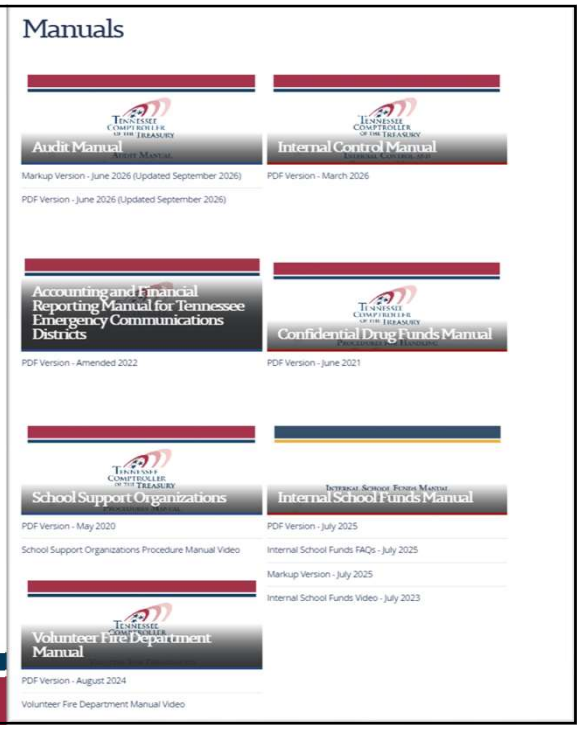
- COT Cyber Aware
- Information Systems Best Practices
- Accounting & Auditing Information
- Area Contacts
- Chart of Accounts
- Manuals
- Training Opportunities
- Agencies Assisting Local Governments
- Audit Glossary

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Manuals

- **Audit Manual**
- **Internal Control Manual**
- Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts
- Confidential Drug Funds Manual
- School Support Organizations
- Internal School Funds Manual
- Volunteer Fire Department Manual

TENNESSEE COMPTROLLER OF THE TREASURY



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TENNESSEE COMPTROLLER OF THE TREASURY

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Audit Manual - Updates

Introduction

- Updated *Internal Control Manual* References

Section A: General Information

- Auditor Rotation
- Delinquent Filing
- Schedule of Cash Shortages and Thefts
- Schedule of Federal and State Awards
- Schedule of Prior Year Findings
- ADA

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ADA Web Accessibility



New Compliance Deadline:

- April 26, 2027:
  Communities with 50,000+
- April 26, 2028:
  Communities under 50,000

TENNESSEE COMPTROLLER OF THE TREASURY

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Section B: Counties

- Accounting, Books, and Records
- Supplementary and Other Information

Section C: Municipalities

- Tennessee Board of Utility Regulation
- Supplementary and Other Information

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Section G: Internal School & Cafeteria Funds

- Internal School Accounting Act
- Financial Reporting
- Additional Requirements

Section I: Program Specific Audits

- Clarification

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Section L: Quick Reference Links

- Updates

Appendix A: Example Schedules

- Schedule of Interfund Transfers
- Summary Schedule of Prior Year Findings

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Summary Schedule of Prior Year Findings [1, 2, 3, 4, 5, 6]

Tennessee Entity Letterhead[2]
Summary Schedule of Prior Year Findings
For the Fiscal Year Ended June 30, 20XX

Financial Statement Findings

Prior Year Finding Number[4]	Original Finding Number[4]	Title of Finding[3]	Status and Current Year Finding Number if not Corrected
2025-001	2015-001	Segregation of Duties	Not Corrected (2026-001) – See Footnote[5]
2025-002	2024-002	Cash not Deposited Timely	Partially Corrected (2026-002) - See Footnote[5]
2025-003	2025-003	Inadequate Computer Password Controls	Corrected

Federal Award Findings and Questioned Costs

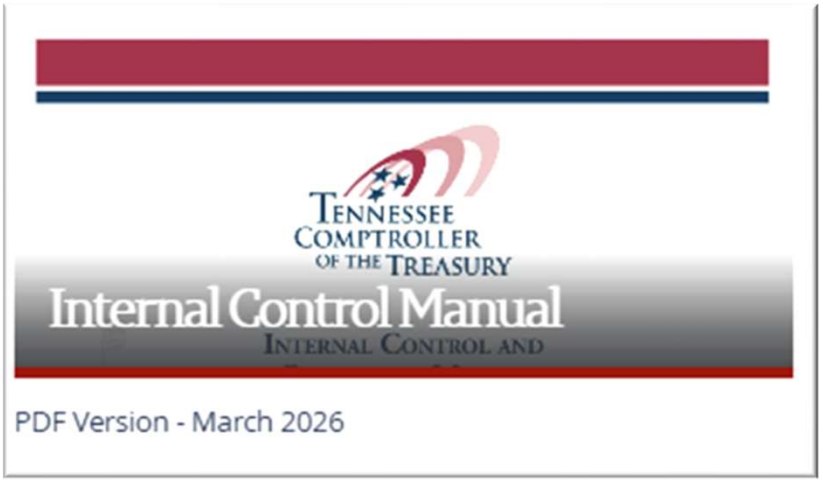
Prior Year Finding Number[4]	Original Finding Number[4]	Title of Finding[3]	Status and Current Year Finding Number if not Corrected
2025-004	2025-004	Unallowable Costs Claimed for Reimbursement	Corrected
2025-005	2025-005	Noncompliance with Eligibility Requirements	Corrected

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Appendix B: Current Developments and Other Matters

- Internal Audit Staffs/Audit Firms and the use of Internal Audit Staffs
- New Legislation

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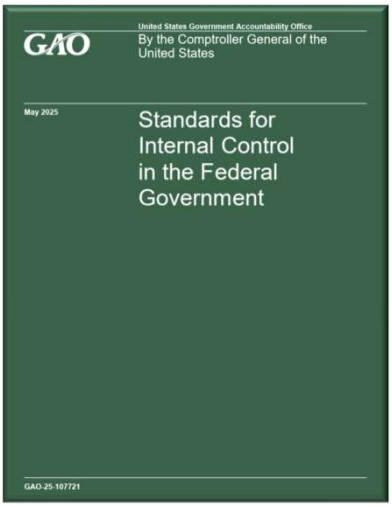
Tennessee Comptroller of the Treasury

Tennessee Comptroller of the Treasury

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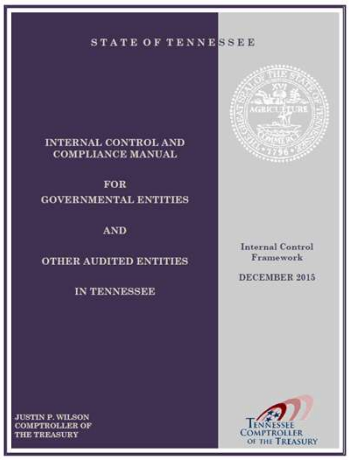
Internal Control Manual

- GAO issued new Standards for Internal Control in the Federal Government (Green Book) in May 2025 effective beginning fiscal year 2026.
- Old Internal Control and Compliance Manual was originally released in 2015 but included a partial update in 2021.

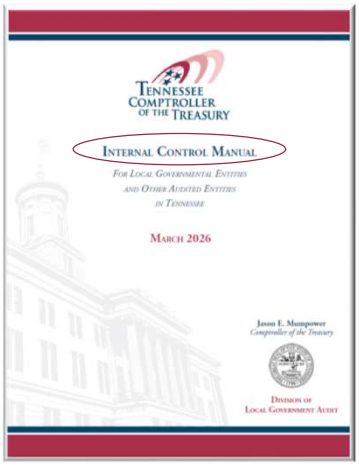


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Internal Control Manual

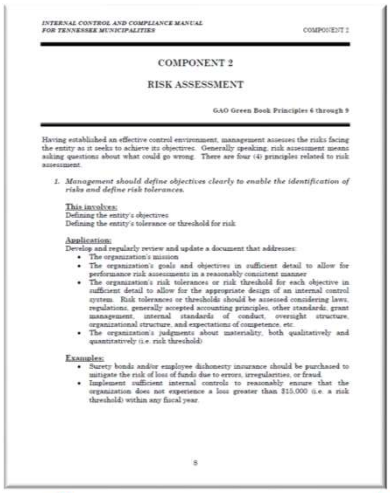






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Internal Control Manual



INTERNAL CONTROL AND COMPLIANCE MANUAL FOR TENNESSEE MUNICIPALITIES — COMPONENT 2

COMPONENT 2

RISK ASSESSMENT

GAO Green Book Principles 6 through 9

Having established an effective control environment, management assesses the risks facing the entity as it seeks to achieve its objectives. Generally speaking, risk assessment means asking questions about what could go wrong. There are four (4) principles related to risk assessment.

1. *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*

This involves:
Defining the entity's objectives
Defining the entity's tolerance or threshold for risk

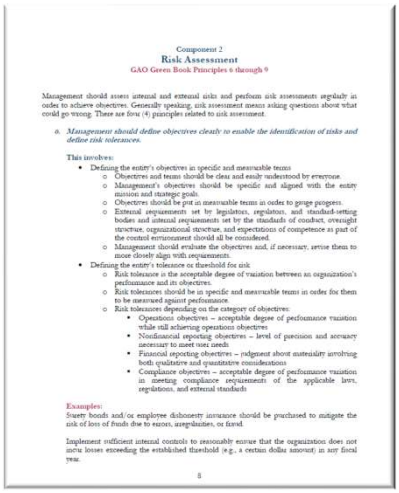
Application:
Develop and regularly review and update a document that addresses:

- The organization's mission
- The organization's goals and objectives in sufficient detail to allow for performance risk assessments in a reasonably consistent manner
- The organization's risk tolerances or risk threshold for each objective in sufficient detail to allow for the appropriate design of an internal control system. Risk tolerances or thresholds should be assessed considering laws, regulations, generally accepted accounting principles, other standards, grant management, internal standards of conduct, oversight structure, organizational structure, and expectations of competence, etc.
- The organization's judgments about materiality, both qualitatively and quantitatively (i.e. risk threshold)

Examples:

- Surety bonds and/or employee dishonesty insurance should be purchased to mitigate the risk of loss of funds due to errors, irregularities, or fraud.
- Implement sufficient internal controls to reasonably ensure that the organization does not experience a loss greater than $15,000 (i.e. a risk threshold) within any fiscal year.

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Component 2
Risk Assessment
GAO Green Book Principles 6 through 9

Management should assess internal and external risks and perform risk assessments regularly in order to achieve objectives. Generally speaking, risk assessment means asking questions about what could go wrong. There are four (4) principles related to risk assessment.

6. *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*

This involves:

- Defining the entity's objectives in specific and measurable terms
  - Objectives and terms should be clear and easily understood by everyone.
  - Management's objectives should be specific and aligned with the entity mission and strategic goals.
  - Objectives should be put in measurable terms in order to gauge progress.
  - External requirements set by legislators, regulators, and standard-setting bodies and internal requirements set by the standards of conduct, oversight structure, organizational structure, and expectations of competence as part of the control environment should all be considered.
  - Management should evaluate the objectives and, if necessary, revise them to more closely align with requirements.
- Defining the entity's tolerance or threshold for risk
  - Risk tolerance is the acceptable degree of variation between an organization's performance and its objectives.
  - Risk tolerances should be in specific and measurable terms in order for them to be measured against performance.
  - Risk tolerances depending on the category of objectives:
    - Operations objectives – acceptable degree of performance variation while still achieving operations objectives
    - Nonfinancial reporting objectives – level of precision and accuracy necessary to meet user needs
    - Financial reporting objectives – judgment about materiality involving both qualitative and quantitative considerations
    - Compliance objectives – acceptable degree of performance variation in meeting compliance requirements of the applicable laws, regulations, and external standards

Examples:
Surety bonds and/or employee dishonesty insurance should be purchased to mitigate the risk of loss of funds due to errors, irregularities, or fraud.

Implement sufficient internal controls to reasonably ensure that the organization does not incur losses exceeding the established threshold (e.g., a certain dollar amount) in any fiscal year.

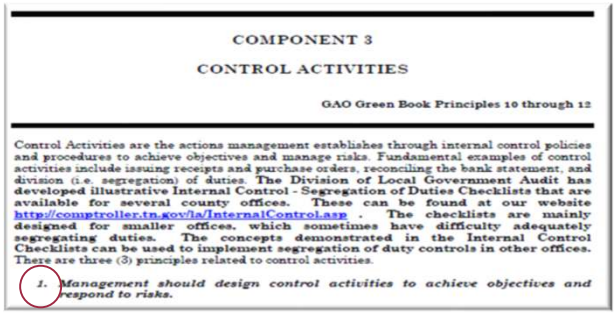
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Internal Control Manual



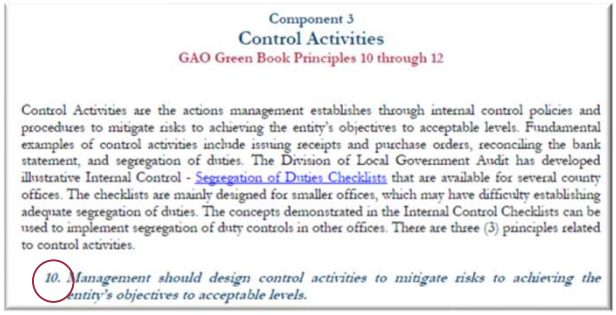
COMPONENT 3

CONTROL ACTIVITIES

GAO Green Book Principles 10 through 12

Control Activities are the actions management establishes through internal control policies and procedures to achieve objectives and manage risks. Fundamental examples of control activities include issuing receipts and purchase orders, reconciling the bank statement, and division (i.e. segregation) of duties. The Division of Local Government Audit has developed illustrative Internal Control - Segregation of Duties Checklists that are available for several county offices. These can be found at our website http://comptroller.tn.gov/la/InternalControl.asp . The checklists are mainly designed for smaller offices, which sometimes have difficulty adequately segregating duties. The concepts demonstrated in the Internal Control Checklists can be used to implement segregation of duty controls in other offices. There are three (3) principles related to control activities.

1. *Management should design control activities to achieve objectives and respond to risks.*



Component 3
Control Activities
GAO Green Book Principles 10 through 12

Control Activities are the actions management establishes through internal control policies and procedures to mitigate risks to achieving the entity's objectives to acceptable levels. Fundamental examples of control activities include issuing receipts and purchase orders, reconciling the bank statement, and segregation of duties. The Division of Local Government Audit has developed illustrative Internal Control - Segregation of Duties Checklists that are available for several county offices. The checklists are mainly designed for smaller offices, which may have difficulty establishing adequate segregation of duties. The concepts demonstrated in the Internal Control Checklists can be used to implement segregation of duty controls in other offices. There are three (3) principles related to control activities.

10. *Management should design control activities to mitigate risks to achieving the entity's objectives to acceptable levels.*

TENNESSEE COMPTROLLER OF THE TREASURY

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Internal Control Manual

Control Environment

1. Commitment to Integrity and Ethical Values
2. Oversight of the Internal Control System
3. Organizational Structure, Responsibility, and Authority
4. Commitment to Recruit, Develop, and Retain Competent Individuals
5. Accountability for Internal Control Responsibilities

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Internal Control Manual

Risk Assessment

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risks
8. Consider Fraud, Improper Payments, and Information Security Risks
9. Identify, Analyze, and Respond to Significant Changes

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Internal Control Manual

Control Activities

10. Design Control Activities to Mitigate Risk

11. Design General Control Activities over Information Technology

12. Implement Control Activities through Policies and Procedures

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Internal Control Manual

Information and Communication

13. Use Quality Information

14. Communicate Internally

15. Communicate Externally

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Internal Control Manual

Monitoring

16. Establish and Operate Monitoring Activities
17. Evaluate and Remediate Deficiencies

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Questions?



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Contact Information

Tim Hardy, CPA, CGFM, CFE

Senior Contract Audit Review Specialist

Division of Local Government Audit

615-401-3039

timothy.hardy@cot.tn.gov

Matt Piland, CGFM, CMFO

Contract Audit Review Specialist

Division of Local Government Audit

615-401-7889

matt.piland@cot.tn.gov



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