AGENDA (ANNOTATED)

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
AUDIT COMMITTEE
JUNE 15, 2021, 2:30 PM
EXECUTIVE CONFERENCE ROOM, STATE CAPITOL, G LEVEL

1. **(Treasurer)** Call Meeting to Order
2. **(Treasurer)** Approval of the AC Meeting Minutes June 25, 2020 **(Pg. 2)** *
3. **(Michael Campbell)** Review Audit Reports Issued by Comptroller's Office
    a. Discuss TLDA Audit Report **(Pg. 6)**
    b. Discuss Clean Water State Revolving Fund Audit Report **(Pg. 34)**
4. **(Alicia West)** Review Financial Statements including Significant Accounting & Reporting Standards **(Pg. 49)**
5. **(Adeniyi Bakare)** SRF Summary of PERS Reports from EPA **(Pg. 50)**
    a. 2020 TN_SRF Drinking Water PERS Report **(Pg. 51)**
    b. 2020 TN_SRF Clean Water PERS Report **(Pg. 61)**
6. **(Sandi Thompson)** Risk Assessments Memo **(Pg. 71)**
    a. 2020 SLF Risk Assessment **(Pg. 72)**
    b. 2020 TDEC Water Resource Risk Assessment **(Pg. 78)**
7. **(Sandi Thompson)** Discuss Management's Responsibility to Prevent, Detect & Report Fraud, Waste & Abuse
8. **(Sandi Thompson)** Discuss Comptroller Hotline
9. **(Earle Pierce)** Current Internal Auditing Article **(Pg. 95)**
10. **(Treasurer)** Opportunity for Public Comment
11. **(Treasurer)** Other Business
12. **(Treasurer)** Adjournment

* Items with an asterisk denote action required by the Audit Committee

Agenda Item #2

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
AUDIT COMMITTEE MEETING MINUTES
June 25, 2020

The Tennessee Local Development Authority (TLDA) Audit Committee met on Thursday, June 25, 2020. The meeting began at 3:27 p.m. in the Cordell Hull Building, Volunteer Conference Center and on-line via WebEx events.

The following members were present:

- David H. Lillard, Jr., State Treasurer
- Butch Eley, Commissioner of Finance and Administration
- Tre Hargett, Tennessee Secretary of State
- Pat Wolfe, Senate Appointee

Others present were:

- Sandra Thompson, Director, Office of State and Local Finance
- Alicia West, Program Accountant, Office of State and Local Finance
- Derek Martin, State Auditor, Office of the Comptroller of the Treasury
- Earle Pierce, Director of Internal Audit, TN Department of Treasury
- Felicia Freeman, Environmental Manager, TN Department of Environment and Conservation (TDEC)

Call Meeting to Order

Treasurer Lillard called the meeting to order and asked for a roll call to determine a quorum. The results of the roll call confirmed a quorum was present for the meeting.

Roll Call: Treasurer Lillard-Present, Secretary Hargett-Present, Dr. Kenneth Moore-Absent, Mr. Pat Wolfe-Present, Commissioner Butch Eley-Present.

Statement of Necessity for Telephonic Participation

Treasurer Lillard read a statement of Necessity for Telephonic Participation which was required since a physical quorum was not present for the meeting. The statement read by Treasurer Lillard confirm the need to meet electronically was necessitated by the COVID-19 outbreak in order to ensure necessary safeguards were taken to conduct the meeting.

Governor Bill Lee, a member of this entity, has previously declared a state of emergency to facilitate Tennessee's response to Coronavirus Disease 2019 (COVID-19). His Executive Order No. 16, as amended by Executive Order No. 34, allows governing bodies to meet electronically regarding essential business in light of COVID-19, so long as they provided electronic access to the public and met certain safeguards established in that Order to ensure the openness and *transparency of the proceedings. In the Notice for this meeting, we indicated the meeting would be held in the Cordell Hull* Building, *Volunteer Conference Center*, 2nd Floor *as well as conducted through WebEx Events and provided information and the steps for public electronic participation. At this time we need a motion to make a determination pursuant to the provisions of Executive Order 16, as amended, that meeting electronically and electronic access is necessary to protect the health, safety, and welfare of Tennesseans in light of the COVID-19 outbreak and the matters listed on the agenda for this meeting relate to the essential business of this audit committee and the necessary safe guards have been taken.*

A motion was made by Secretary Hargett to accept the statement and seconded by Treasurer Lillard. A roll call vote confirmed the motion passed unanimously.

Roll Call Vote: Treasurer Lillard-Aye, Secretary Hargett-Aye, Pat Wolfe-Aye, Commissioner Eley-Aye

Approval of Meeting Minutes

Treasurer Lillard presented the minutes from the June 27, 2019 TLDA Audit Committee meeting for approval. There were no other recommended changes. Treasurer Lillard motioned to accept the minutes as presented and Secretary Hargett seconded the motion. Mr. Pierce performed a roll-call vote and the motion passed unanimously.

Treasurer Lillard-Aye, Secretary Hargett-Aye, Mr. Wolfe-Aye, Commissioner Eley-Aye

Review Audit Reports Issued by Comptroller's Office

Treasurer Lillard recognized Derek Martin from State Audit to review the audit reports for the Tennessee Local Development Authority (TLDA) and the Clean Water State Revolving Fund (CWSRF). Both the TLDA and CWSRF received unmodified opinions on their June 30, 2019 financial statements. No material errors were found in the financial statements. There were no findings and no exceptions noted with internal controls or compliance.

Review Financial Statements Including Significant Accounting and Reporting Standards

Treasurer Lillard recognized Alicia West to review the financial statements for the TLDA and the SRF programs. Ms. West presented an overview of the financial statements.

Review of Program Evaluation Reports from the EPA

Treasurer Lillard recognized Felicia Freeman, Environment Manager from TDEC to discuss reports from the EPA. Ms. Freeman reviewed Program Evaluation Reports (PERs) from the Environmental Protection Agency for studies conducted in fiscal year 2019 with reports dated as of December 2019. The reports covered the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund. The 2019 PERs reports contained no findings or deficiencies. The reports included four recommendations for each program. Ms. Freeman reviewed each of the recommendations with the Committee and the status of SRF's efforts to address them.

State and Local Finance 2019 Risk Assessments

Treasurer Lillard recognized Sandra Thompson to discuss the Office of State and Local Finance (SLF) and Division of Water Resources 2019 Risk Assessments. Ms. Thompson stated the risk assessments cover risks and controls as required by the Financial Integrity Act. A memo regarding the act was included in the materials. Ms. Thompson discussed some of the testing performed to ensure controls documented in the risk assessments worked as intended.

Discuss Management's Responsibility to Prevent, Detect and Report Fraud, Waste and Abuse

Treasurer Lillard recognized Sandra Thompson to speak about management's responsibility to prevent, detect, and report fraud, waste, and abuse. Ms. Thompson stated the tone at the top is the first line of defense for preventing fraud, waste, and abuse. Ms. Thompson noted she was not aware of any instances of reported fraud, waste, or abuse within the Office of State and Local Finance. Department personnel are aware risk exists with performing their duties. Those risks are monitored and mitigated daily.

Discuss Comptroller Hotline

Treasurer Lillard recognized Sandra Thompson to discuss the Comptroller's Fraud, Waste, and Abuse (FWA) Hotline. Employees and members of the community are encouraged to call the Comptroller's toll-free hot line to report any instances of suspected waste and abuse of government funds.

Discuss Current Internal Audit Article

Treasurer Lillard recognized Earle Pierce to present a current article from the Institute of Internal Auditors entitled, "Fraud Report Affirms Internal Audit's Value at Critical Time". Mr. Pierce summarized the article with a brief discussion of the challenges during the current pandemic and the opportunities for fraud created by it. The COVID-19 pandemic has brought focus to how organizations respond to significant crisis, and with evidence suggesting internal audit is playing a significant, relevant, and valuable role along with management in the role of the first line of defense and compliance as the second line of defense.

Opportunity for Public Comment

Treasurer Lillard opened the floor to any comments from the public regarding the meeting. No comments were made.

Other Business

Treasurer Lillard opened the floor for any other business to be brought before the Committee. No new business was presented.

Adjournment

Treasurer Lillard motioned to adjourn. Mr. Pat Wolfe seconded the motion. A roll call vote was made to adjourn the meeting and the motion passed unanimously.

Treasurer Lillard-Aye, Secretary Hargett-Aye, Mr. Wolfe-Aye, Commissioner Eley-Aye

Treasurer Lillard adjourned the meeting at 3:44 p.m.

Approved:

David H. Lillard, Jr.
TLDA Audit Committee Chairman

Agenda Item #3a

TENNESSEE
COMPTROLLER
OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

Tennessee Local Development Authority

For the Year Ended June 30, 2020

Jason E. Mumpower
Comptroller of the Treasury

DIVISION OF STATE AUDIT

Katherine J. Stickel, CPA, CGFM
Director

Robyn R. Probus, CPA, CFE, CGFM, CGMA
Assistant Director

Derek D. Martin, CPA, CFE, CGFM
Audit Manager

Diane Wheeler
In-Charge Auditor

Cleve A. Birdwell, CPA
Staff Auditor

Gerry C. Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Cordell Hull Building
425 Rep. John Lewis Way N.
Nashville, TN 37243
(615) 401-7897

Reports are available at
comptroller.tn.gov/office-functions/state-audit.html

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

Comptroller Website
comptroller.tn.gov

Jason E. Mumpower
Comptroller

January 21, 2021

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Local Development Authority for the year ended June 30, 2020. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

21/009

Audit Report

Tennessee Local Development Authority

For the Year Ended June 30, 2020

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For the Year Ended June 30, 2020

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of and for the years ended June 30, 2020, and June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

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and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Local Development Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Authority.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Local Development Authority as of June 30, 2020, and June 30, 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tennessee Local Development Authority's basic financial statements. The accompanying financial information on pages 20 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2021, on our consideration of the Tennessee Local Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts (including the bond resolutions) and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee Local Development Authority's internal control over financial reporting and compliance.

Katie J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
January 11, 2021

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Management's Discussion and Analysis

As management of the Tennessee Local Development Authority, we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2020, and June 30, 2019, with comparative data for the year ended June 30, 2018. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Program Activity Highlights

The Authority's purpose is to provide loans to local government units under the State Loan Program and the State Infrastructure Program. The table below summarizes this business activity.

Pursuant to Title 4, Chapter 31, *Tennessee Code Annotated*, the General Assembly of the state created the Tennessee Local Development Authority to issue bonds and notes to fund capital projects for a variety of purposes. Currently, the programs of the Authority which have made loans to borrowers include

1) the State Loan Program, which provides assistance to local government units in the construction of waterworks, sewage treatment, and energy and/or solid waste recovery facilities, and

2) the State Infrastructure Program, which provides assistance to local government units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

	Local Government Units			**State Infrastructure Program**		
	2020	2019	2018	2020	2019	2018
Number of borrowers with outstanding loans	4	5	8	1	1	1
Total number of outstanding loans	4	7	10	1	1	1
Total amount of outstanding loans (in thousands)	$1,230	$1,494	$1,891	$1,434	$1,490	$1,126
Number of outstanding loans approved in fiscal year	0	0	0	0	0	0
Amount of loans approved in fiscal year (in thousands)	$0	$0	$0	$0	$0	$0

The state is not liable on any debt of the Authority, and the bonds are not a debt of the State of Tennessee. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, in the notes to the financial statements.

The financial statements and the analysis provided in the remainder of this report reflect the financial results of this activity.

Debt Administration

The Authority's most long-standing program is its State Loan Program. To date, the State Loan Program has only been utilized to make loans for the construction of water and sewer projects. A financial analysis is conducted for each loan applicant to be funded through the State Loan Program before the application is approved by the Authority. Each local government unit must demonstrate that it has enacted rates and charges sufficient to repay the debt, as well as to fund operations, maintenance, and depreciation. The Authority also compares state-shared taxes, which are pledged by the local government unit, in relation to projected debt service. The Authority is authorized to intercept these state-shared taxes, should the government unit fail to timely repay its loan. The balance of any deficit would be secured by the debt service reserve fund and the statutory reserve fund. The statutory reserve fund is an amount set aside in the fund from appropriations of the state's General Assembly from 1985 to 1987, intended to ensure payment of debt service on debt issued for any purpose under the State Loan Program.

During its construction phase, a project in the State Loan Program is typically funded through the issuance of Bond Anticipation Notes. When a sufficient dollar amount of projects are completed to assure an appropriate economy of scale to sell bonds, the Authority may fix the interest rate for the term of the projects by issuing long-term debt. Interest rates on the State Loan Program facilities long-term fixed-rate debt range from a low of 4% to a high of 4.375%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency are achieved. The creditworthiness of both large and small local government units is blended into one credit resulting in a lower cost of borrowing to most participants.

At June 30, 2020, the Authority's State Loan Program is rated AA by Standard & Poor's Rating Group (S&P) and AA by Fitch Ratings. On May 28, 2019, S&P placed the AA+ rating on credit watch with negative implications. The credit watch reflects the decline in the number of participants in the pool as the program has wound down. On October 1, 2019, S&P subsequently downgraded the rating to AA and removed the credit watch. The downgrade reflects S&P's assessment of the bonds based on the application of its "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" criteria. In general, rating reports include comments about the Authority's ongoing commitment to conservative practices, as well as sound legal provisions, strong state oversight, and an ample debt service reserve as strengths of the credit. Rating agencies also note that added strengths of the credit of the program are the underlying credit quality of the local governments receiving loans, the responsibility of the localities to repay loans, and the Authority's history of never needing to intercept state-shared taxes or tap the statutory reserve fund.

The State Infrastructure Fund was created in 2009 with the transfer of the existing state infrastructure bank, which had been under the administration of the Tennessee Department of Transportation (TDOT). The following sources can be used to provide additional capitalization to the fund: appropriations from the state's General Assembly; federal funds apportioned and available to the state and approved by TDOT; contributions, donations, and grants from the federal government or other governmental units or private entities; and principal and interest repayments from the borrowers. The Authority reviews each loan application to determine the borrower's capability to assure sufficient revenues to operate and maintain the project for its useful life and to repay the loan. The borrower may pledge its state-shared taxes, its full faith and credit and unlimited taxing power, or other security as the Authority deems appropriate. No debt may be issued in order to provide loans to borrowers from the State Infrastructure Fund. The Authority is charged with the responsibilities of approving loan applications and administering the loans. The Authority has received and approved one loan application from the fund.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred, regardless of the timing of related cash flows. Using the economic resources measurement focus, readers are presented information that allows them to determine the transactions and events that have increased or decreased the total economic resources for the period.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of two components: 1) the financial statements and 2) the notes to the financial statements. The financial statements consist of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The statement of net position reports the Authority's overall financial position at June 30, the end of each fiscal year presented. The statement of revenues, expenses, and changes in net position reports the results of operations for the year. The statement of cash flows summarizes the inflows and outflows of cash throughout the fiscal year. These statements are supplemented by notes to the financial statements, which provide information essential to the reader's understanding of the financial statements. In addition to the financial statements and notes, this report also contains supplementary information containing financial statement information at the program level.

Financial Analysis of the Authority

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets at the lowest possible cost and to make creditworthy loans. There have been no incidents which required the Authority to refuse a loan application due to the inability to obtain capital funding. Also, the Authority has never had to use the intercept of state-shared taxes, nor has it had to draw from the debt service reserve fund or the statutory reserve fund in order to pay debt service.

The following is a discussion highlighting certain elements of the Authority's financial statements.

Statements of Net Position Summary
(in thousands of dollars)

	2020	2019	2018
Current assets	$15,993	$15,363	$15,115
Restricted assets	348	515	595
Other assets	2,377	2,663	2,628
Total assets	18,718	18,541	18,338
Deferred outflows of resources	26	64	102
Current liabilities	455	605	656
Noncurrent liabilities	1,258	1,567	2,026
Total liabilities	1,713	2,172	2,682
Net position (unrestricted)	$17,031	$16,433	$15,758

Note: The Authority owns no capital assets.

For the years ended June 30, 2020; June 30, 2019; and June 30, 2018, the largest component of the total asset balance is the cash balance. Loans receivable (both current and noncurrent) totaled $2,663,403 at June 30, 2020; $2,983,522 at June 30, 2019; and $3,017,833 at June 30, 2018. Restricted assets represent the debt service reserve fund. Other assets decreased from 2019 to 2020 as no new loans were made and payments were received on existing loans receivable. The Authority's liabilities consist mostly of the outstanding portion of its bonds payable. No bonds have been issued since 2006. Bonds payable continues to decrease as bond payments are made. No Revenue Bond Anticipation Notes were issued during any of the three years presented. The Authority has not received any loan applications in the current fiscal year and, therefore, has no plans to issue debt in the immediate future. In the current market, communities who have previously utilized the program have identified other funding opportunities that better suit their needs at this time.

Statements of Revenues, Expenses, and Changes in Net Position Summary
(in thousands of dollars)

	2020	2019	2018
Operating Revenues			
Revenue from loans	$100	$121	$111
Administrative fees collected	503	443	378
Interest income	247	343	203
Total operating revenues	850	907	692
Operating Expenses			
Interest expense	90	108	131
Subsidy to borrowers	7	13	13
Administrative expenses	155	111	111
Total operating expenses	252	232	255
Operating income	598	675	437
Increase in Net Position	$598	$675	$437

The Authority's operating expenses are supported by revenue received from the borrowers as a one-time cost of issuance expense not to exceed 2% at the time of permanent financing, interest on loans, and income on investments. In addition, the Authority has oversight and approval duties related to loans made from the Clean Water and Drinking Water State Revolving Fund (SRF) programs. In 2010, the Authority was given statutory authority to charge the SRF borrowers a fee for the administration of the loans. Therefore, subsequent loans approved are charged an eight-basis point (0.08%) fee on the outstanding balance of the loan over its life. These administrative fees are recognized by the Authority as operating revenue. Operating expenses include interest expense on outstanding debt and administrative expenses of the program. A portion of investment earnings will be returned to borrowers as a subsidy to borrowers upon bond maturity.

Revenue to the Authority decreased from 2019 to 2020 and increased from 2018 to 2019. Improved market interest rates were responsible for an increase in interest earned on the Authority's investments from 2018 to 2019. In 2020, however, interest rates have trended downward resulting in a decrease in interest earned from 2019 to 2020. The increase in total operating revenues from 2018 to 2019 is also attributed to administrative fees collected on SRF program loans. Revenue from loans of the Authority is declining as the State Loan Program winds down. All of the Authority's loans are structured such that the borrowers pay level debt service payments for the life of the loan, meaning that over time the borrowers' principal payment will increase, and the interest payment will decrease. Since no new loans have been made, as the existing loans approach maturity, the interest revenue will trend downward. In addition, as payments are made on outstanding bonds with no new debt expected to be issued, interest expense will trend downward. The Authority's administrative expenses increased from 2019 to 2020 and remained the same from 2018 to 2019. The increase in administrative expenses from 2019 to 2020 is attributed to increased administrative costs associated with State Government Finance services.

COVID-19

COVID-19 is not expected to have a significant impact on the Authority's State Loan Program. Borrowers that experience financial difficulties can be referred to the state's utilities boards, which support municipalities, counties, treatment authorities, water, and wastewater public utilities that operate water and sewer enterprises by ensuring that they are financially self-supporting. Additionally, loans are secured by a pledge of system revenues and are further secured by a pledge of borrower's state-shared taxes, a security deposit equal to maximum annual debt service, and a statutory reserve fund. Therefore, sufficient funds are available to meet debt service requirements on the bonds in the event of a loan default. Moreover, the Comptroller's Office has taken safety measures to control the spread of the virus among staff including teleworking opportunities, enhanced cleaning and disinfecting of office spaces, electronic meetings, and social distancing.

Contacting the Authority's Management Team

This discussion and analysis is designed to provide our citizens, local government units, community providers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Office of State Government Finance, State of Tennessee, Cordell Hull Building, 425 Fifth Avenue North, Tennessee 37243-3400 or visit our website at www.comptroller.tn.gov/sl/.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Statements of Net Position
June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash (Note 2)	$15,706	$15,042
Receivables:		
Loans receivable	287	321
Total current assets	15,993	15,363
Noncurrent assets:		
Restricted cash (Notes 2 and 3)	348	515
Loans receivable	2,377	2,663
Total noncurrent assets	2,725	3,178
Total assets	18,718	18,541
Deferred outflows of resources		
Deferred amount on bond refunding	26	64
Liabilities		
Current liabilities:		
Accrued interest payable	21	27
Payable to borrowers (Note 4)	149	143
Revenue bonds payable (Note 5)	285	435
Total current liabilities	455	605
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	1,258	1,567
Total noncurrent liabilities	1,258	1,567
Total liabilities	1,713	2,172
Net position		
Unrestricted (Note 6)	17,031	16,433
Total net position	$17,031	$16,433

The notes to the financial statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020	Year Ended June 30, 2019
Operating revenues		
Revenue from loans	$ 100	$ 121
Administrative fees collected	503	443
Interest income	247	343
Total operating revenues	850	907
Operating expenses		
Interest expense	90	108
Subsidy to borrowers	7	13
Administrative expenses	155	111
Total operating expenses	252	232
Operating income	598	675
Net position		
Net position, July 1	16,433	15,758
Net position, June 30	$17,031	$16,433

The notes to the financial statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Statements of Cash Flows

For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Payments to service providers	$ (155)	$ (111)
Net cash used by operating activities	(155)	(111)
Cash flows from noncapital financing activities		
Principal payments	(435)	(495)
Interest paid	(80)	(101)
Net cash used by noncapital financing activities	(515)	(596)
Cash flows from investing activities		
Loans issued	-	(364)
Collections of loan principal	319	400
Interest received on loans	100	121
Administrative revenue	503	443
Interest received on pooled investment fund	247	343
Amounts repaid to borrowers	(2)	-
Net cash provided by investing activities	1,167	943
Net increase in cash	497	236
Cash, July 1	15,557	15,321
Cash, June 30	$16,054	$15,557
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 598	$ 675
Adjustments to reconcile operating income to net cash used by operating activities:		
Revenue from loans	(100)	(121)
Interest income	(247)	(343)
Interest expense	90	108
Subsidy to borrowers	7	13
Administrative revenue from borrowers	(503)	(443)
Total adjustments	(753)	(786)
Net cash used by operating activities	$ (155)	$ (111)

The notes to the financial statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Tennessee Local Development Authority was created to provide financial assistance to local governments through the issuance of revenue bonds or notes. The Authority has also issued bonds to assist nonprofit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities.

The Authority is a component unit of the State of Tennessee and is a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement 14, *The Financial Reporting Entity*, as amended, the Authority is discretely presented in Tennessee's *Comprehensive Annual Financial Report* because the Authority's board consists of state officials which include the Governor, the Secretary of State, the Comptroller of the Treasury, the State Treasurer, the Commissioner of Finance and Administration, a State Senate appointee, and a State House appointee. The Governor serves as chairman, and the Secretary of State serves as vice chairman. The Comptroller of the Treasury serves as secretary. The Director of the Office of State Government Finance serves as the assistant secretary; the Office of State Government Finance provides administrative and financial services to the Authority. Therefore, the state has the ability to affect the day-to-day operations of the Authority.

The Authority does not have any employees. The members serve without salary but are entitled to reimbursement for their actual and necessary expenses incurred in the performance of their official duty.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

The Tennessee Local Development Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The Authority's principal operation is to provide loans to local governments through the issuance of revenue bonds or notes. Therefore, the principal operating revenues of the Authority are from interest on loans made to borrowers. The Authority also recognizes income on investments as operating revenue. The Authority's operating expenses include interest paid on borrowings, subsidies to borrowers, bond issuance costs, arbitrage, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash

This classification includes cash on hand and deposits in the State Pooled Investment Fund administered by the State Treasurer.

Bond Discounts, Bond Premiums, and Issuance Costs

Bond discounts and premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond discounts and premiums. Bond issuance costs are expensed when incurred.

Note 2. Deposits

Under the general bond resolution of the Tennessee Local Development Authority, the funds of the Authority are to be held and invested by the State Treasurer.

The Authority does not utilize its own bank accounts but has cash on deposit for its operating cash purposes in the State Pooled Investment Fund administered by the State Treasurer. The Authority had \$16,055,309 in the pooled investment fund at June 30, 2020, and \$15,557,957 at June 30, 2019. The pooled investment fund is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The funds are very liquid; there are no minimum amounts or lengths of time for investment. The fund is not rated by a nationally recognized statistical rating organization. The fund's investments are measured at amortized cost. Its investment policy and required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. The report is posted on the state's website at https://treasury.tn.gov/.

Note 3. Restricted Assets

The general bond resolution of the Authority requires that the principal of each bond issue include an amount equal to one year's debt service requirement and that such amount be placed in special trust accounts with the trustee. The required debt service reserve was \$348,290 at June 30, 2020, and \$515,690 at June 30, 2019.

Note 4. Payable to Borrowers

This account represents interest earnings on restricted assets and loan principal that is being held until the bonds mature and then will be refunded to borrowers.

Note 5. Debt Payable

Revenue Bonds

Bonds payable at June 30, 2020, and June 30, 2019, were as follows (expressed in thousands):

	June 30, 2020	June 30, 2019
2006 Refunding Series A at interest rates of 4% maturing to 2021 (original par-$20,070)	$ 75	$ 310
2006 Series B at interest rates from 4% to 4.375% maturing to 2029 (original par-$37,415)	1,460	1,660
Total par amount of bonds payable	1,535	1,970
Plus unamortized premium	16	40
Less unamortized discount	(8)	(8)
Net bonds payable	$1,543	$2,002

Debt service requirements to maturity of the revenue bonds payable at June 30, 2020, were as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2021	$ 285	$ 63	$ 348
2022	220	52	272
2023	230	43	273
2024	240	34	274
2025	245	24	269
2026–2029	315	18	333
Total	$1,535	$234	$1,769

Changes in long-term debt payable for the year ended June 30, 2020, were as follows (expressed in thousands):

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Amounts Due Within One Year
Revenue bonds payable	$1,970	$ -	$435	$1,535	$285
Less: unamortized bond discount	(8)	-	-	(8)	-
Add: unamortized bond premium	40	-	24	16	-
Total bonds payable	$2,002	$ -	$459	$1,543	$285

Changes in long-term debt payable for the year ended June 30, 2019, are as follows (expressed in thousands):

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Amounts Due Within One Year
Revenue bonds payable	$2,465	$ -	$495	$1,970	$435
Less: unamortized bond discount	(9)	-	(1)	(8)	-
Add: unamortized bond premium	65	-	25	40	-
Total bonds payable	$2,521	$ -	$519	$2,002	$435

Events of Default

Debt under the Tennessee Local Development Authority State Loan Program is secured by monthly payments of principal and interest made by local governments in accordance with the loan agreements. Under these loan agreements, local governments agree to levy fees, rates, or charges for services provided by the project and/or ad valorem taxes sufficient to pay debt service requirements. Additional security includes a pledge of state-shared taxes, a debt service reserve, and a statutory reserve.

Upon event of default, the General Bond Resolution empowers the trustee to institute any action or proceedings of law or equity for the collection of all payments due and unpaid under a loan agreement and to require the Authority to withhold state-shared taxes to the extent permitted by law and the terms of the loan agreement. In the event a local government should fail to make a timely and full payment with respect to the loan agreement, the Secretary or Assistant Secretary to the Authority will notify the Commissioner of Finance and Administration (the Commissioner) that the local government has failed to pay loan repayments due and payable with respect to a project and pursuant to the loan agreement and request the Commissioner to notify the local government of the default. The Commissioner shall deliver written notice by certified mail to the local government of such failure within 5 days of such failure. In the event the local government unit fails to remit the required payment or payments within 60 days of receipt of such notice, the Commissioner shall, without further authorization, withhold such sum or part of such sum from the state-shared taxes to make the local government current with respect to the unpaid loan. The balance of any deficit would be secured first by the debt service reserve and then the statutory reserve.

Upon the event of default of principal and interest due on bonds or notes, the Authority shall notify the trustee of such event and the corrective action, if any, the Authority intends to take. Upon the occurrence of an event of default of which the trustee has actual knowledge and at all times thereafter while such default shall continue, the trustee shall become vested with all the estate, property, rights, trusts, duties, and obligations of the trustee and shall take possession or supervision over the funds and account created under the General Bond Resolution and collect and receive all revenues and other monies in the same manner as the Authority and shall act in place of the Authority in the exercise of all rights and duties. The trustee shall give written notice by mail to all the registered holders of the bonds within 60 days after having obtained actual knowledge of default. Upon the occurrence and continuance of an event of default, the trustee (1) for and on behalf of the holders of the bonds, shall have the same rights which are possessed by the bondholders; (2) shall be authorized to proceed, in its own name and as trustee of an express trust; (3) may pursue any available remedy by action at law or suit in equity to enforce the payment of principal and interest and premium, if any, on the bonds; (4) may file such proofs of claim and other papers or documents as may be necessary; and (5) may, and upon written request of the holders of the bonds of not less than a majority in principal amount of the bonds then outstanding shall proceed to protect and enforce all rights of the bondholders and the trustee as permitted by the General Bond Resolution and the laws of the State of Tennessee.

Note 6. Statutory Reserve

The statutory reserve is an amount set aside in the fund intended to ensure payment of the required annual debt service (principal and interest) for municipalities in the event of a default that have insufficient state-shared taxes available to the Authority to withhold. Per review of the General Bond Resolution, it was determined that this amount should be classified as unrestricted net position. The statutory reserve was funded at $3 million from appropriations of the state's General Assembly from 1985 to 1987. As of June 30, 2020, the statutory reserve balance was $3,304,657.

As a part of the application process, each loan applicant pledges its available state-shared taxes, giving the Authority the authorization to intercept these state-shared taxes, should the local government unit fail to repay timely its loan. An analysis is conducted to compare this state-shared tax amount to projected maximum annual debt service. The balance of any deficit would be secured first by the debt service reserve and then the statutory reserve. Of the Authority's current borrowers, Mount Carmel was the only borrower with a deficit. Maximum annual debt service for Mount Carmel is $130,372. This loan, which is a part of the 2006 Refunding Series A bonds, matured in February 2020. The bonds have a final maturity of March 2021.

Note 7. State Infrastructure Fund

The Tennessee Transportation State Infrastructure Fund was created pursuant to Section 4-31-1201, *Tennessee Code Annotated*. The State Infrastructure Program provides assistance to local government units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public. In fiscal years 2020 and 2019, no loans were approved.

Note 8. Bond Rating

On May 28, 2019, S&P Global Ratings placed the Authority's AA+ rating on its outstanding bonds on a credit watch. The placement reflects the decline to below 10 in the number of borrowers in the loan pool as the program winds down. On October 1, 2019, S&P Global Ratings lowered its rating to AA and removed the rating from the credit watch.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Net Position - Program Level

June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	June 30, 2020			June 30, 2019		
	State Loan Programs	State Infrastructure Loan Program	Total	State Loan Programs	State Infrastructure Loan Program	Total
Assets						
Current assets:						
Cash	$14,782	$ 924	$15,706	$14,217	$ 825	$15,042
Receivables:						
Loans receivable	224	63	287	264	57	321
Total current assets	15,006	987	15,993	14,481	882	15,363
Noncurrent assets:						
Restricted cash	348	-	348	515	-	515
Loans receivable	1,006	1,371	2,377	1,230	1,433	2,663
Total noncurrent assets	1,354	1,371	2,725	1,745	1,433	3,178
Total assets	16,360	2,358	18,718	16,226	2,315	18,541
Deferred outflows of resources						
Deferred amount on bond refunding	26	-	26	64	-	64
Liabilities						
Current liabilities:						
Accrued interest payable	21	-	21	27	-	27
Payable to borrowers	149	-	149	143	-	143
Revenue bonds payable	285	-	285	435	-	435
Total current liabilities	455	-	455	605	-	605
Noncurrent liabilities:						
Revenue bonds payable, net	1,258	-	1,258	1,567	-	1,567
Total noncurrent liabilities	1,258	-	1,258	1,567	-	1,567
Total liabilities	1,713	-	1,713	2,172	-	2,172
Net position						
Unrestricted	14,673	2,358	17,031	14,118	2,315	16,433
Total net position	$14,673	$2,358	$17,031	$14,118	$2,315	$16,433

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Revenues, Expenses, and Changes in Net Position - Program Level

For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	State Loan Programs	State Infrastructure Loan Program	Total	State Loan Programs	State Infrastructure Loan Program	Total
Operating revenues						
Revenue from loans	$ 72	$ 28	$ 100	$ 97	$ 24	$ 121
Administrative fees collected	501	2	503	441	2	443
Interest income	234	13	247	322	21	343
Total operating revenues	807	43	850	860	47	907
Operating expenses						
Interest expense	90	-	90	108	-	108
Subsidy to borrowers	7	-	7	13	-	13
Administrative expenses	155	-	155	111	-	111
Total operating expenses	252	-	252	232	-	232
Operating income	555	43	598	628	47	675
Net position						
Net position, July 1	14,118	2,315	16,433	13,490	2,268	15,758
Net position, June 30	$14,673	$2,358	$17,031	$14,118	$2,315	$16,433

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Cash Flows - Program Level

For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020			Year Ended June 30, 2019		
	State Loan Programs	State Infrastructure Loan Program	Total	State Loan Programs	State Infrastructure Loan Program	Total
Cash flows from operating activities						
Payments to service providers	$ (155)	$ -	$ (155)	$ (111)	$ -	$ (111)
Net cash used by operating activities	(155)	-	(155)	(111)	-	(111)
Cash flows from noncapital financing activities						
Principal payments	(435)	-	(435)	(495)	-	(495)
Interest paid	(80)	-	(80)	(101)	-	(101)
Net cash used by noncapital financing activities	(515)	-	(515)	(596)	-	(596)
Cash flows from investing activities						
Loans issued	-	-	-	-	(364)	(364)
Collections of loan principal	263	56	319	400	-	400
Interest received on loans	72	28	100	97	24	121
Administrative revenue	501	2	503	441	2	443
Interest received on pooled investment fund	234	13	247	322	21	343
Amounts repaid to borrowers	(2)	-	(2)	-	-	-
Net cash provided by (used by) investing activities	1,068	99	1,167	1,260	(317)	943
Net increase (decrease) in cash	398	99	497	553	(317)	236
Cash, July 1	14,732	825	15,557	14,179	1,142	15,321
Cash, June 30	$15,130	$ 924	$16,054	$14,732	$ 825	$15,557

Reconciliation of operating income to net cash used by operating activities:						
Operating income	$ 555	$ 43	$ 598	$ 628	$ 47	$ 675
Adjustments to reconcile operating income to net cash used by operating activities:						
Revenue from loans	(72)	(28)	(100)	(97)	(24)	(121)
Interest income	(234)	(13)	(247)	(322)	(21)	(343)
Interest expense	90	-	90	108	-	108
Subsidy to borrowers	7	-	7	13	-	13
Administrative revenue from borrowers	(501)	(2)	(503)	(441)	(2)	(443)
Total adjustments	(710)	(43)	(753)	(739)	(47)	(786)
Net cash used by operating activities	$ (155)	$ -	$ (155)	$ (111)	$ -	$ (111)

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent 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*

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

We have audited the financial statements of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 11, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
January 11, 2021

Agenda Item #3b

TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

Clean Water State Revolving Fund

For the Year Ended June 30, 2020

Justin P. Wilson
Comptroller of the Treasury

DIVISION OF STATE AUDIT

Katherine J. Stickel, CPA, CGFM
Director

Robyn R. Probus, CPA, CFE, CGFM, CGMA
Assistant Director

Derek D. Martin, CPA, CFE, CGFM
Audit Manager

Diane Wheeler
In-Charge Auditor

Cleve A. Birdwell, CPA
Staff Auditor

Gerry C. Boaz, CPA, CGFM, CGMA
Technical Manager

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

Reports are available at
comptroller.tn.gov/office-functions/state-audit.html

Mission Statement
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make government work better.

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

December 14, 2020

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Clean Water State Revolving Fund for the year ended June 30, 2020. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

21/008

Audit Report

Clean Water State Revolving Fund

For the Year Ended June 30, 2020

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Financial and Compliance Audit

Clean Water State Revolving Fund

For the Year Ended June 30, 2020

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

Report on the Financial Statements

We have audited the accompanying financial statements of the Clean Water State Revolving Fund, an enterprise fund of the State of Tennessee, as of and for the years ended June 30, 2020, and June 30, 2019, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee Local Development Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Clean Water State Revolving Fund.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clean Water State Revolving Fund of the State of Tennessee as of June 30, 2020, and June 30, 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2020, and June 30, 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2020, on our consideration of the Clean Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the fund's internal control over financial reporting and compliance.

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 7, 2020

CLEAN WATER STATE REVOLVING FUND
Statements of Net Position
June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash (Note 2)	$ 395,770	$ 448,803
Loans receivable	59,626	36,043
Total current assets	455,396	484,846
Noncurrent assets:		
Loans receivable	698,810	646,924
Total noncurrent assets	698,810	646,924
Total assets	1,154,206	1,131,770
Liabilities		
Current liabilities:		
Payable to borrowers (Note 3)	128	173
Total current liabilities	128	173
Noncurrent liabilities:		
Customer deposits payable (Note 2)	7,833	7,923
Total noncurrent liabilities	7,833	7,923
Total liabilities	7,961	8,096
Net position		
Unrestricted	1,146,245	1,123,674
Total net position	$1,146,245	$1,123,674

The notes to the financial statements are an integral part of this statement.

CLEAN WATER STATE REVOLVING FUND
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020	Year Ended June 30, 2019
Operating revenues		
Revenue from loans	$ 9,774	$ 9,442
Interest income	6,575	9,188
Total operating revenues	16,349	18,630
Operating expenses		
Administrative expenses	1,093	1,035
Total operating expenses	1,093	1,035
Operating income	15,256	17,595
Nonoperating revenues		
Capitalization grant	4,805	18,750
Total nonoperating revenues	4,805	18,750
Nonoperating expenses		
Principal forgiveness (Note 5)	2,106	1,487
Total nonoperating expenses	2,106	1,487
Income before transfers	17,955	34,858
Transfers in (Note 4)	4,616	47,497
Change in net position	22,571	82,355
Net position, July 1	1,123,674	1,041,319
Net position, June 30	$1,146,245	$1,123,674

The notes to the financial statements are an integral part of this statement.

CLEAN WATER STATE REVOLVING FUND
Statements of Cash Flows
For the Years Ended June 30, 2020, and June 30, 2019

(Expressed in Thousands)

	Year Ended June 30, 2020	Year Ended June 30, 2019
Cash flows from operating activities		
Payments for interfund services	$ (1,093)	$ (1,035)
Net cash used by operating activities	(1,093)	(1,035)
Cash flows from noncapital financing activities		
Operating grants received	4,805	18,750
Transfers in	4,616	47,497
Net cash provided by noncapital financing activities	9,421	66,247
Cash flows from investing activities		
Loans issued and other disbursements to borrowers	(125,402)	(95,918)
Collections of loan principal	47,828	36,829
Security deposits from borrowers	382	283
Interest received on loans	9,774	9,442
Interest received on investments	6,702	9,361
Amounts repaid to borrowers	(645)	(289)
Net cash used by investing activities	(61,361)	(40,292)
Net increase (decrease) in cash	(53,033)	24,920
Cash, July 1	448,803	423,883
Cash, June 30	$395,770	$448,803
Reconciliation of operating income to net cash used by operating activities:		
Operating income	$ 15,256	$ 17,595
Adjustments to reconcile operating income to net cash used by operating activities:		
Revenue from loans	(9,774)	(9,442)
Interest income	(6,575)	(9,188)
Total adjustments	(16,349)	(18,630)
Net cash used by operating activities	$ (1,093)	$ (1,035)

The notes to the financial statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Clean Water State Revolving Fund was created to provide local governments and utility districts with low-cost financial assistance to improve and protect water quality and public health. The Clean Water State Revolving Fund has been included in Tennessee's *Comprehensive Annual Financial Report* as an enterprise fund (Sewer Treatment Loan Fund). That report is posted on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-cafr.html.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items in the Clean Water State Revolving Fund. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operation of the fund is to provide loans to local governments through a revolving loan fund established under Title VI of the Clean Water Act. Therefore, the principal operating revenues of the fund are from interest on loans made to borrowers. The fund also recognizes interest income as operating revenue. The fund's operating expenses are its administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash

This classification includes cash on hand and deposits in the State Pooled Investment Fund administered by the State Treasurer.

Note 2. Deposits

At June 30, 2020, the Clean Water State Revolving Fund had $387,936,715 in the State Pooled Investment Fund for operating cash purposes and $7,833,365 in customer security deposits in the Local Government Investment Pool. At June 30, 2019, the fund had $440,879,722 in the State

Pooled Investment Fund and $7,923,221 in the Local Government Investment Pool. The Local Government Investment Pool is part of the pooled investment fund administered by the State Treasurer. The pooled investment fund is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The funds are very liquid; there are no minimum amounts or lengths of time for investment. The fund is not rated by a nationally recognized statistical rating organization. The fund's investments are measured at amortized cost. Its investment policy and required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. That report is posted on the state's website at https://treasury.tn.gov/.

Note 3. Payable to Borrowers

This account represents loan principal overpayments that will be refunded to borrowers and interest earned on security deposits, which is due to the borrowers per the loan agreements.

Note 4. Interfund Transfers

Each year since the Clean Water State Revolving Fund Loan Program's inception in 1987, the state has been awarded a capitalization grant from the U.S. Environmental Protection Agency to fund the program. To provide a state match for the federal grant to operate the program, the Clean Water State Revolving Fund received an interfund transfer of $4,616,400 from the state's general fund during the year ended June 30, 2020, and $4,687,400 during the year ended June 30, 2019.

In fiscal year ended June 30, 2019, $42,809,917 was transferred from the Drinking Water State Revolving Fund to the Clean Water State Revolving Fund. The authority for this transfer is provided for in Title 40, *Code of Federal Regulations*, Part 35, Section 3135(e)(4).

Note 5. Principal Forgiveness

In fiscal year 2010, the Clean Water State Revolving Fund received money from the American Recovery and Reinvestment Act (ARRA) of 2009. As part of the conditions stipulated by ARRA for acceptance of this money, the State Revolving Fund program granted principal forgiveness to the borrowers. Each community that received an ARRA loan was granted 40% principal forgiveness; thus, only 60% of the total award was recorded as a repayable loan. Additionally, each community was limited to one ARRA loan in an amount that could not exceed $12.5 million.

Beginning in fiscal year 2011, and continuing through the present, the capitalization grant that the Clean Water State Revolving Fund received also stipulated that the state must subsidize a portion of the borrower loans. Therefore, for the first time as a part of its normal operations, the fund began granting principal forgiveness as a part of the loans made from the capitalization grant. The communities to receive this subsidization are determined according to normal procedures of priority ranking used in the past to make loans. Principal forgiveness is recognized on the statements of cash flows as part of "loans issued and other disbursements to borrowers."

Justin P. Wilson
Comptroller

Jason E. Mumpower
Deputy Comptroller

Independent 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*

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

We have audited the financial statements of the Clean Water State Revolving Fund, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements, and have issued our report thereon dated December 7, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clean Water State Revolving Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clean Water State Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 7, 2020

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

Fiscal Year Ending June 30, 2020

TLDA Programs

1. State Loan Program Fund: (Water/Sewer)
   - 4 borrowers
   - 4 loans outstanding
   - $1,535,000 bonds outstanding (Bonds mature 2029)

2. State Infrastructure Fund (Transportation)
   - 1 borrower
   - Collections:
     - $56,705 loan principal
     - $27,724 interest

Operating Income: $597,826
Net Position at June 30, 2020: $17,031,194
No new loans are being issued for these programs.

State Revolving Fund Loan Programs

1. Clean Water Fund
   - Disbursements
     - $125,402,172
   - Collections
     - $47,826,846 loan principal
     - $9,774,293 interest
   - Net position at June 30, 2020: $1,146,245,174

2. Drinking Water Fund
   - Disbursements
     - $10,108,520
   - Collections
     - $13,768,359 loan principal
     - $1,843,061 interest
   - Net position at June 30, 2020: $187,138,369

No significant changes to accounting and reporting standards.

Agenda item #5

SRF Program Summary for TLDA June 15, 2021 Audit Committee Meeting

1. Clean Water State Revolving Fund – Financial and Compliance Audit Report (June 30, 2020)

- The audit resulted in no observations or findings

2. EPA Region 4 SRF Program Evaluation Report - Clean Water SRF (CWSRF) Program

- EPA conducted a review of the CWSRF Program January 27, 2021 – February 24, 2021

- EPA identified no findings or required actions.

3. EPA Region 4 SRF Program Evaluation Report - Drinking Water SRF (DWSRF) Program

- EPA conducted a review of the DWSRF Program January 27, 2021 – February 24, 2021

- Items identified by EPA that required action are summarized below with a current status:

#	Item	Action Needed	Status
1	Increase DWSRF pace (cumulative amount of loans issued as a percentage of loan funds available); TN is currently at 80% and the national average is 96%	Increase number of loans awarded by increasing demand through education, outreach, technical assistance, and other actions	Currently, SRF is working with three communities through the funding process that have large funding request; exploring marketing assistance; continuing to increase community engagement; and continuing our strategy to focus on small and disadvantaged communities
2	Continue to ensure borrowers follow DBE affirmative steps	Ensure borrowers follow the six affirmative steps to maximize DBE participation	SRF loan documents have been revised to include the six DBE affirmative steps; SRF reviews borrowers' submittals to ensure compliance; and ensures borrowers have made a good faith effort to incorporate DBE participation

Agenda Item #5a

PROGRAM EVALUATION REPORT

Tennessee
Drinking Water State Revolving Fund
Fiscal Year 2020 Program Review

Region 4
U. S. Environmental Protection Agency
March 2021

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) reviews the performance of the Tennessee Department of Environment and Conservation's (TDEC) Drinking Water State Revolving Fund program (DWSRF) for the fiscal year (FY) 2020. The U. S. Environmental Protection Agency (EPA) is required by 40 CFR § 35.3570 to annually assess the success of the state's performance of activities identified in the FY19 DWSRF Intended Use Plan (IUP) and FY2020 annual report to determine compliance with the terms of the capitalization grant agreement.

During FY2020, the state entered into seven loans totaling $37.4 with local governments for the construction of drinking water facilities. Pace is a DWSRF program metric. It is the percentage of the cumulative amount of loans issued as a percentage of all funds available. The national average for the pace of the program is 96 percent. As of June 30, 2020, the reported pace of the TDEC DWSRF program was 80 percent.

The Tennessee DWSRF has been administered in accordance with Section 1452 of the Safe Drinking Water Act (SDWA) as amended, and is in compliance with the terms, schedules, provisions and assurances of the current FY2020 IUP, work plans, the current operating agreement between the State and the EPA and the conditions of the DWSRF Capitalization Grant Agreements.

SECTION I: PURPOSE AND SCOPE

The EPA Region 4 conducted the FY2020 annual review of Tennessee DWSRF on January 27, 2021-February 24, 2021. The process was conducted as prescribed in Section 1452 of the Safe Drinking Water Act, 40 CFR § 35.3575 and in the Annual Review Guidance issued May 2019. Due to the ongoing Covid-19 pandemic, this review was conducted in a virtual format, with the EPA review team conducting technical file review and transaction tests remotely using electronic copies.

The annual review included the state's capitalization grant (plus any amendment thereto), the IUP, operating agreement and any additional documentation used to establish or manage the DWSRF during FY2020. The scope of the annual review includes consideration of the legal, technical, managerial, financial and operational capabilities of TDEC. Focus areas of review included, but were not limited to, compliance with grant conditions, certifications and assurances, adherence to specific proposals, progress toward stated goals and objectives.

In attendance at the virtual entrance conference for TDEC were Adeniyi Bakare, Paula Mitchell, Felicia Freeman, Andrea Fenwick, Vena Jones, Taylor Jeffries, Lawanda Johnson, Vidya Bhupathiraju, and Rick Tamble. The EPA review team included Kelly Tucker from HQ and Thomas Cooney, Martha Douglas and Sheryl Parsons from the EPA Region 4 office. The EPA requested two technical review projects and four disbursement transactions from TDEC for the virtual review.

At the completion of the review, a virtual exit briefing was held to review the observations made by the EPA and to obtain clarification of any outstanding issues. Attending the exit conference for TDEC were Adeniyi Bakare, Paula Mitchell, Andrea Fenwick, and Felicia Freeman. Attending from the EPA was Kelly Tucker from HQ and Thomas Cooney, Martha Douglas, Sheryl Parsons, Johnnie Purify and Chris Thomas from Region 4.

SECTION II: COMPLIANCE REQUIREMENTS

TDEC's last financial and compliance audit for the year ending June 30, 2020, contained no findings.

The state's Disadvantaged Business Program (DBE) goal for FY2020 was 7.8 percent. The state ensures borrowers follow the six affirmative steps for DBE participation. The actual DBE procurement awarded was 2.7 percent.

TDEC is in compliance with the 13 assurances stated in the grant agreement, including capacity development and operator certification requirements. These assurances have their basis in 40 CFR § 35.3550.

Based on the review, the following items describe the activities and observations of interest:

1. Assurance that the State has the authority to establish a fund and to operate the DWSRF program in accordance with the SDWA.

Status: The state provided the required Attorney General certification with the grant application.

2. Assurance that the State will comply with state statutes and regulations and abide by state law.

   Status: The state certified this in the FY2019 IUP.

3. Assurance that the State has the technical capability to operate the program.

   Status: The state is in compliance with this assurance.

4. Assurance that the State will accept capitalization grant funds in accordance with a payment schedule.

   Status: The state certified this in the FY2019 IUP.

5. Assurance that the State will deposit all capitalization grant funds in the fund or set-aside account.

   Status: The state has deposited the capitalization grant appropriately.

6. Assurance that the State will provide an amount at least equal to 20 percent of the capitalization grant (state match) in the fund.

   *Status: The FY2019 capitalization grant was $19,113,000. The 20 percent state match amount of $*3,822,600 *was provided through state funds*.

7. Assurance that the State will deposit net bond proceeds, interest earnings and repayments into the fund.

   Status: The state does not leverage. All repayments and interest earnings are credited to the fund.

8. Assurance that the State will use Generally Accepted Accounting Principles.

   Status: As noted in the FY2020 state audit, the state has complied with this assurance.

9. Assurance that the State will have the fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

   Status: The DWSRF is audited with the state accounts.

10. Assurance that the State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of a privately-owned system, demonstrate that there is adequate security).

Status: The state has complied with this assurance in loan agreements to borrowers.

11. Assurance that the State will commit and expend funds as efficiently as possible and in an expeditious and timely manner.

    Status: The overall pace percentage for the state is 80 percent (the national average is 96 percent). The state disbursed a total of $10,014,231 from the DWSRF in FY2020.

12. Assurance that funds will be used in accordance with the IUP.

    Status: The annual report documents the state is in compliance with this assurance.

13. Assurance that the state will provide the EPA with a Biennial Report.

    Status: TDEC has elected to provide an annual report to the EPA. The annual report for Tennessee's DWSRF program was received by September 30, 2020, for the state FY ending June 30, 2020. The report contained adequate and accurate information.

SECTION III: PROGRAM GOALS

TDEC has two long term goals and two short term goals in their IUP. Status is directly cited from TDEC's DWSRF annual report. The goals and accomplishments reviewed for the FY2020 Program Evaluation Report, include:

Long term goal and status:

1. Provide local governments with low cost financial assistance.

   Status: Fiscal responsibilities are coordinated with TDEC, the Comptroller's Office and the Department of Finance and Administration to ensure appropriate internal controls and proper accounting procedures.

Short term goal and status:

2. Manage an effective and efficient DWSRF loan program.

   Status: Developed new Standard Operating Procedures for technical and financial review process, developed a streamlined contacts database.

SECTION IV: PROJECT FILES REVIEWED

There were two project files reviewed during the annual oversight review. The projects were:

Lebanon, a $1.4 million 20-year loan for construction of a water storage tank. The loan was signed

August 2, 2019. The interest rate was 1.31 percent. A categorical exclusion was issued November 5, 2019.

Smith Utility District, a $1 million 20-year loan for replacement of a water storage tank. The loan was signed September 19, 2019. The interest rate was 0.49 percent. A finding of no significant impact was signed October 7, 2016.

Both projects were eligible for DWSRF funding and followed the environmental review and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS REPORTING

During FY2020, the State entered into seven new loans totaling $37.4 to local governments for the construction of drinking water facilities.

TDEC updated the Public Water Supply Benefits Reporting (PBR) database as required by the grant agreement in a timely fashion. All necessary information about projects funded in FY2020 had been entered in the PBR system.

SECTION VI: CASH DRAWS

Draws were reviewed during the annual oversight review. The draws were $175.29 on May 12, 2020; $64,634.58 on May 4, 2020; $9,286.93 on June 12, 2020; and $324.52 on December 11, 2020; No improper payments were identified.

SECTION VII: FINANCIAL INDICATORS

Return on federal investment is a performance measure used to evaluate the efficiency of an investment, that is, it measures the gain (or loss) generated relative to the federal dollars invested. The state's return on federal investment is 130%. The national average is 207%. (Figure 1)

The national average for the pace of the program in the DWSRF is 96%. As of June 30, 2020, the pace of the program was 80% (cumulative amount of loans issued as a percentage of all funds available). (Figure 2)

Disbursements as a percentage of assistance provided shows how quickly loans are being disbursed to borrowers, which, of course, follows costs incurred. TDEC's disbursement percentage is 93% compared to the national average of 87%. (Figure 3)

Uncommitted balances are the amount of funds the state has available for loans that are not committed to loans. Tennessee's uncommitted balance for FY2020 is $74.3 million, with a ratio of 3.7%. (Figure 4)

On the basis of our financial review, we conclude the TDEC DWSRF is in sound financial condition.

SECTION VIII: SET ASIDE PERFORMANCE

The DWSRF program gives states the option of using up to 31 percent of their capitalization grant for activities that protect sources of drinking water and enhance water systems management. Tennessee has elected to use the set-asides in the following manner:

State Program Management

Section 1452(g) (2) of the SDWA allows up to 10 percent of the DWSRF capitalization grant to be set-aside to support other program initiatives of the SDWA. For State Program Management, the state used $644,478. These funds provided program support for the PWSS program, including data management and compliance.

Small System Technical Assistance

In FY2020, the program used $240,916 for this set aside. The Fleming Training Center (FTC) in Murfreesboro, Tennessee administers the small system technical assistance set-aside. The FTC conducts operator training for water operators. For FY2020, 144 operators were trained and 280 days of instruction provided.

SECTION IX: FOLLOW UP ON PRIOR YEAR PROGRAM EVALUATION REPORT

The following items were the EPA recommendations for the TDEC DWSRF program in the FY2019 DWSRF Program Evaluation Report:

1. It is recommended that the state increase the pace of the program. As of June 30, 2019, the pace of the program was 90 percent). The national average for the DWSRF is 96 percent. The state is currently utilizing the services of the EPA contractor to develop marketing plans. The EPA Region 4 will continue to provide technical assistance.

   Status: The State continues to take the necessary steps to ensure an increased pace of their DWSRF program.

2. It is recommended that the state add American Iron and Steel to the inspection checklist.

   Status: The State has fulfilled this requirement.

3. It is recommended that the State continue to follow the six affirmative steps and try to increase DBE participation.

   Status: The State continues to take the necessary steps to ensure DBE participation.

SECTION X: RECOMMENDATIONS

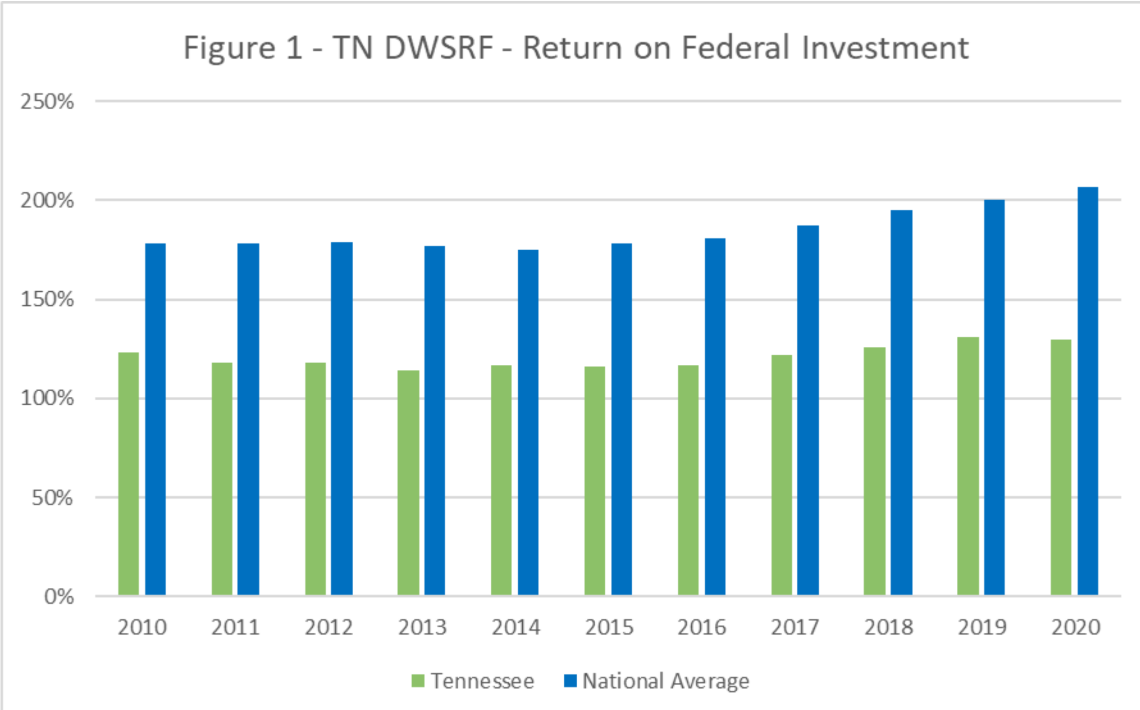
1. It is recommended that the State increase the pace of the program. As of June 30, 2020, the pace of the program was 80 percent. The national average for the DWSRF is 96 percent. The State is currently utilizing the services of the EPA contractor to develop marketing plans. The State also has three large loans expected to close during FY2021. The EPA Region 4 will continue to provide technical assistance.

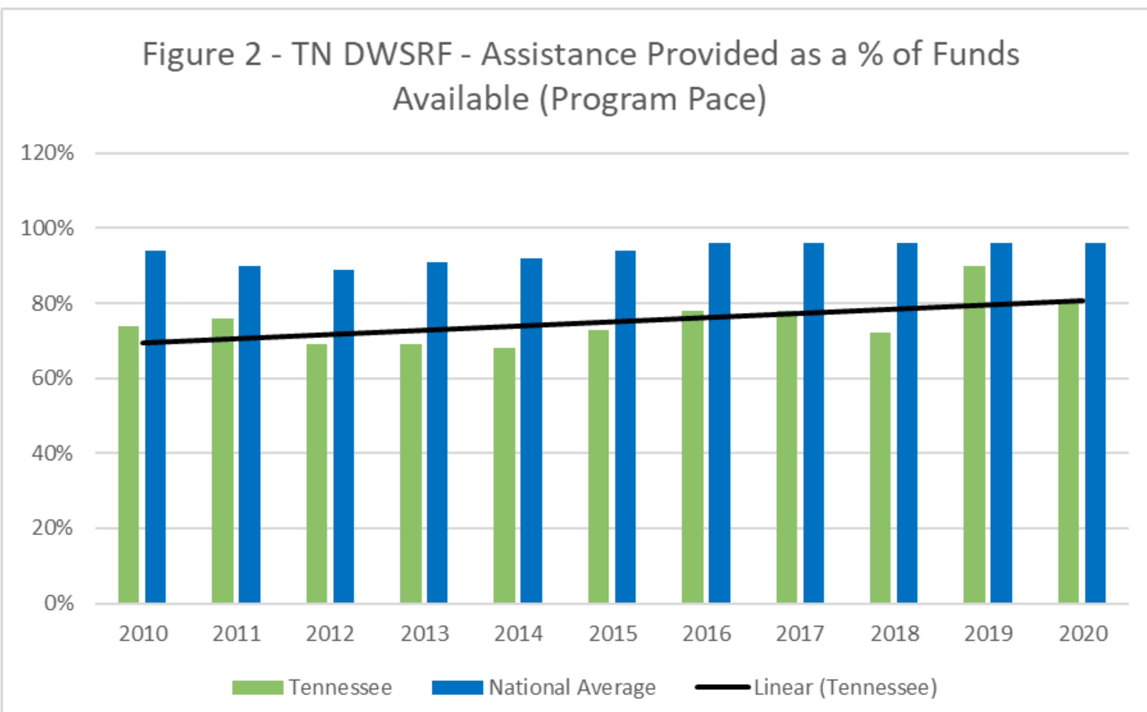
2. It is recommended that the State continue to follow the six affirmative steps and try to increase DBE participation.

SECTION X: FINDINGS

There are no findings for the TDEC DWSRF program in this year's review.

APPENDIX: DWSRF Program Financial Indicators





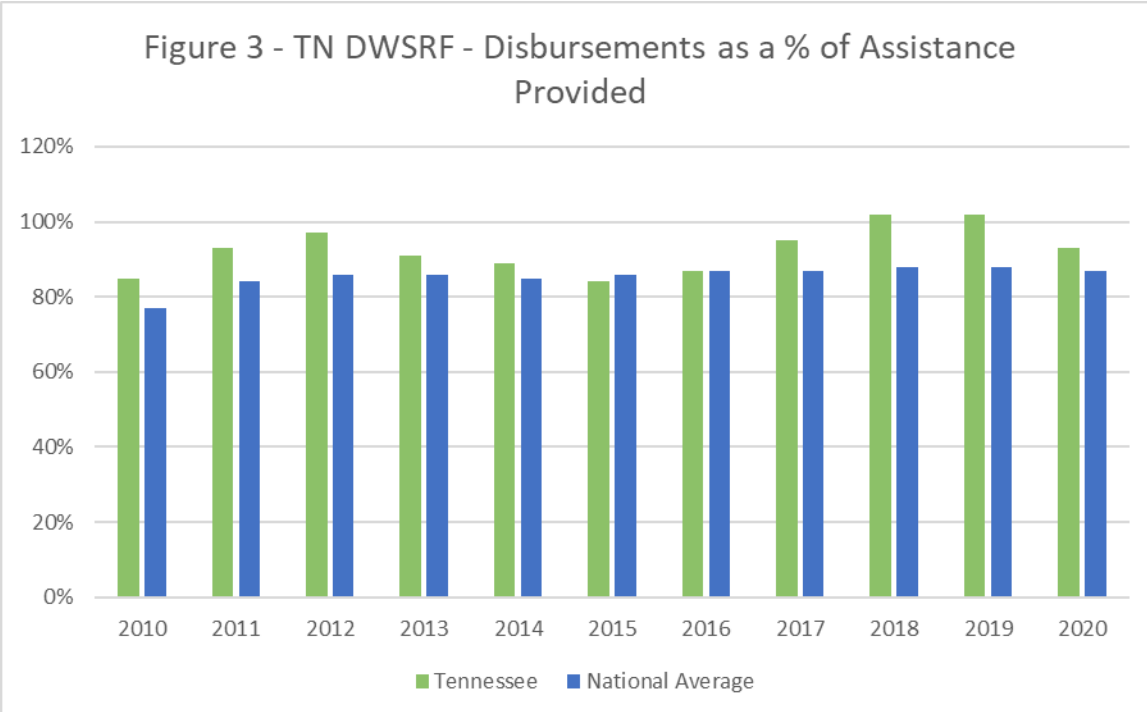


Figure 3 - TN DWSRF - Disbursements as a % of Assistance Provided
120%
100%
80%
60%
40%
20%
0%
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Tennessee
National Average

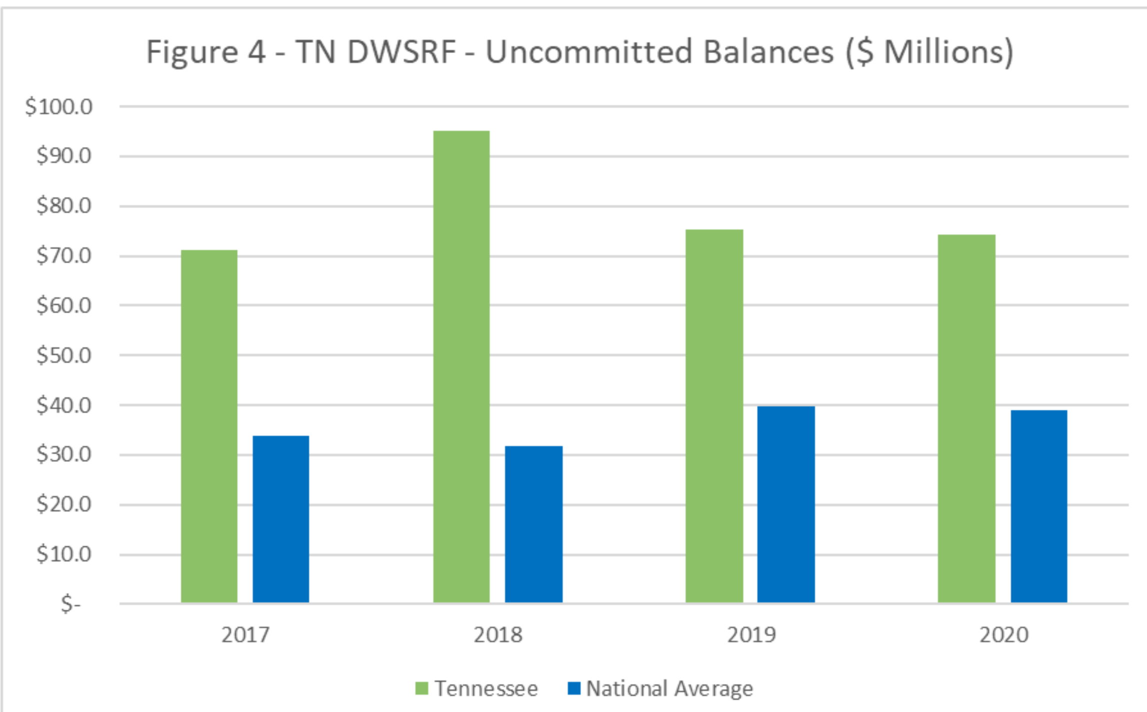


Figure 4 - TN DWSRF - Uncommitted Balances ($ Millions)
$100.0
$90.0
$80.0
$70.0
$60.0
$50.0
$40.0
$30.0
$20.0
$10.0
$-
2017
2018
2019
2020
Tennessee
National Average

Agenda Item #5b

PROGRAM EVALUATION REPORT

Tennessee
Clean Water State Revolving Fund
Fiscal Year 2020 Program Review

Region 4
U. S. Environmental Protection Agency
March 2021

EXECUTIVE SUMMARY

This report reviews the performance of the Tennessee Department of Environment and Conservation's (TDEC) Clean Water State Revolving Fund program (CWSRF) for the fiscal year (FY) 2020. The U. S. Environmental Protection Agency (EPA) is required by 40 CFR§35.3165 to annually assess the success of the state's performance of activities identified in the FY19 CWSRF Intended Use Plan (IUP) and annual report to determine compliance with the terms of the capitalization grant agreement.

During FY20 the state entered into 14 new loans totaling $150.5 million. The loans provided financing for the planning, design, and construction of wastewater and storm water management facilities. Program pace is a CWSRF metric. It is the percentage of the cumulative amount of loans issued as a percentage of all funds available. The national average for pace of the program is 99 percent. As of June 30, 2020, the reported pace of the TDEC CWSRF program was 98 percent.

The Tennessee CWSRF was found to be administered in accordance with Title VI of the Clean Water Act (CWA) as amended. The program is following all terms, schedules, provisions/assurances of the IUP, the operating agreement between the state and the EPA and the conditions of the Capitalization Grant Agreement.

SECTION I: PURPOSE AND SCOPE

The EPA conducted the FY20 annual review of the Tennessee CWSRF on January 27, 2021 - February 24, 2021. The process was conducted as prescribed in Section 606(e) of the CWA, 40 CFR§35.3165, Chapter 7 of the State Revolving Fund Management Manual and the annual review guidance issued in May 2019. Due to the ongoing Covid-19 pandemic, this review was conducted in a virtual format, with the EPA review team conducting technical file review and transaction tests remotely using electronic copies.

The annual review included the state's capitalization grant (plus any amendment thereto), the IUP, operating agreement and any additional documentation used to establish or manage the CWSRF in FY20. The scope of the annual review includes consideration of the legal, technical, managerial, financial, and operational capabilities of TDEC. Focus areas of review included, but were not limited to, compliance with grant conditions, certifications and assurances, adherence to specific proposals and progress toward stated goals and objectives.

In attendance at the virtual entrance conference for TDEC were Adeniyi Bakare, Paula Mitchell, Felicia Freeman, Andrea Fenwick, Vena Jones, Taylor Jeffries, Lawanda Johnson, Vidya Bhupathiraju, and Rick Tamble. The EPA Region 4 review team included Thomas Cooney, Martha Douglas and Sheryl Parsons. The EPA requested two technical review projects and four disbursement transactions from TDEC for the virtual review.

At the completion of the review, a virtual exit briefing was held to review the observations made by the EPA and to obtain clarification of any outstanding issues. Attending the exit conference for TDEC were Adeniyi Bakare, Paula Mitchell, Andrea Fenwick, and Felicia Freeman. Attending from EPA Headquarters was Kelly Tucker and from Region 4 were Thomas Cooney, Martha Douglas, Sheryl Parsons, Johnnie Purify and Chris Thomas.

SECTION II: COMPLIANCE REQUIREMENTS

TDEC's last financial and compliance audit for the year ending June 30, 2020 contained no findings.

The state's Disadvantage Business Enterprise Program (DBE) program goal for FY20 was 7.8 percent. The state ensures borrowers follow the six affirmative steps for DBE participation. The actual DBE procurement awarded was 6.8 percent.

TDEC is in compliance with the 16 items outlined in the grant agreement. Based on the review, the following items describe the activities and observations of interest:

1. <u>Acceptance of Grant: Payments, 40 CFR§35.3135(a)</u>. "The State is required to accept grant payments in accordance with the negotiated payment schedule."

   Status: During the reporting period, the state accepted grant payments in accordance with the negotiated payment schedule.

2. <u>State Match, 40 CFR§35.3135(b).</u> "The State is required to deposit into its CWSRF an amount

equaling at least 20 percent of the amount of each grant payment. The State match must be deposited on or before the date on which the State receives each payment from the grant award."

Status: The FY19 capitalization was $23,082,000. The 20 percent state match amount of $4,616,400 was provided through state funds.

3. Binding Commitments, 40 CFR§35.3135(c). "The State is required to make binding commitments in an amount equal to 120 percent of each quarterly grant payment within one year after receipt of each quarterly grant payment."

   Status: The state entered into 14 new loans with local governments totaling $150.5 million in FY20. The state met this requirement.

4. Timely Expenditure of Funds, 40 CFR§35.3135(d). "The State must expend all funds in the CWSRF in an expeditious and timely manner."

   Status: Pace of the program is a CWSRF metric. The overall pace percentage (the cumulative amount of loans issued as a percentage of all funds available) for the State is 98 percent (the national average is 97 percent). The State disbursed a total of $5,766,325 from the CWSRF in FY20.

5. Eligible Activities, 40 CFR§35.3115, 3120 and 3125. "The CWSRF must be used solely to provide loans and other authorized forms of assistance: (a) to municipalities, inter-municipal, interstate, or state agencies for the construction of publicly owned treatment works as defined in Section 212 of the Act and that appear on the state's priority list developed pursuant to Section 216 of the Act; and (b) for implementation of a nonpoint source pollution control management program under Section 319 of the Act; and (c) for development and implementation of an estuary conservation and management plan under Section 320 of the Act."

   Status: The State funded wastewater and stormwater projects.

6. Abide by State Law, 40 CFR§35.3135(g). "The State is required to commit or expend each quarterly capitalization grant payment in accordance with the State's own laws and procedures regarding the commitment or expenditure of revenues."

   Status: In the annual report the State has certified that they followed their own laws and procedures regarding the commitment or expenditure of revenues.

7. Other Federal Authorities, 40 CFR§35.3145(a) "The State is required to comply and to require all recipients of funds directly made available by capitalization grants to comply with applicable federal authorities."

   Status: In the annual report, under the provisions of the operating agreement/conditions of their grant, the state certified compliance with other federal authorities.

8. Rules of Cash Draw, 40 CFR§35.3155(d) and §35.3160. "The State may draw cash when the

SRF receives a request from the loan recipient, based on incurred costs"

Status: Cash draws for the reporting period ending June 30, 2020 were made in accordance with 40 CFR§35.3160. No improper payments were identified.

9. Generally Accepted Accounting Principles, 40 CFR§35.3135(h). "The State is required to establish fiscal control and accounting procedures that are sufficient to assure proper accounting for payments received by the CWSRF, disbursements made by the CWSRF, and CWSRF balances at the beginning and end of the accounting period. The State must also agree to use accounting, audit and fiscal procedures conforming to generally accepted government accounting standards as these are promulgated by the Governmental Accounting Standard Board."

   Status: In the annual report, the State certified adherence to state auditing and accounting procedures, which comply with the Single Audit Act of 1984 and OMB circular A-128 by reference to the Operating Agreement.

10. Recipient Accounting, 40 CFR§35.3135(i). "The State must agree to require recipients of CWSRF assistance to maintain project accounts in accordance with generally accepted government accounting standards as these are promulgated by the Government Accounting Standards Board."

    Status: The State has complied with this requirement via a condition in the loan agreement for borrowers.

11. Annual Report, 40 CFR§35.3135(j) and §35.3165. "The State must agree to make available an annual report to the Regional Administrator on the actual use of the funds, in accordance with Section 606(d) of the CWA."

    Status: The annual report for Tennessee's CWSRF program was received by September 30, 2020, for the state FY ending June 30, 2020. The report contained adequate and accurate information regarding program implementation.

12. Environmental Reviews, 40 CFR§35.3140. "The State is required to conduct reviews of the potential environmental impacts of all Section 212 construction projects receiving assistance from the CWSRF, including nonpoint source pollution control Section 319 and estuary protection Section 320 projects that are also Section 212 projects. The State may elect to apply the procedures at 40 CFR Part 6, subpart E and related subparts, or apply its NEPA like SERP for conducting environmental reviews."

    Status: The state has a NEPA-like SERP which was approved by the Region 4 Regional Administrator. Two projects were reviewed for compliance with the SERP. Both reviewed projects followed the SERP and were well documented.

13. Consistency with Planning, 40 CFR§35.3125(e). "The CWSRF may provide assistance only to projects that are consistent with any plans developed under Sections 205(j), 208, 303(e), 319 and 320 of the CWA."

    Status: The state is in compliance with this regulation, funding eligible wastewater and stormwater projects.

14. Outlay Management, 40 CFR§35.3155(b). "With the application for a capitalization grant, the State shall submit a schedule that reflects, by quarters, the estimated disbursements from that grant for the year following the grant award date. This schedule must be developed in conformity with the procedures applicable to cash draws in 40 CFR§35.3160 and must be sufficient to allow the Agency and the State to jointly develop and maintain a forecast of cash draws."

    Status: The state complied with this regulation in the IUP.

15. Intended Use Plan, 40 CFR§35.3150. "The State must prepare a plan identifying the intended uses of the funds in the CWSRF and describing how those uses support the goals of the CWSRF. The IUP must be prepared annually and must be subjected to public comment and review before being submitted to the EPA. The EPA must receive the IUP prior to the award of the capitalization grant. According to Section 606(c) of the CWA, after providing the IUP for public comment and review, each State shall annually prepare a plan identifying the intended uses of the amounts (including repayments) available to its water pollution control revolving fund."

    Status: The state's FY20 IUP was complete and included repayments and interest earnings in the amounts available for assistance.

16. Perpetuity, 40 CFR§35.3100(a). "Section 606(c) requires that the States shall annually prepare a plan identifying the intended uses of the amounts available to its water pollution control revolving fund. Generally, based on an Office of General Counsel opinion in a January 19, 1995, a one-year time frame seems reasonable for committing repayments and other funds to projects. If all available funds are not committed to projects, then the IUP must contain a plan which details how and when the funds will be used."

    Status: The state is complying with this requirement. The state has a plan to commit funds to projects in a timely fashion.

SECTION III: PROGRAM GOALS

TDEC has two long term goals and two short term goals in their FY19 IUP. Status is directly cited from TDEC's CWSRF annual report. The goals and accomplishments reviewed for the FY20 Program Evaluation Report, include:

Long term goal and status:

1. Provide local governments with low cost financial assistance.

Status: Fiscal responsibilities are coordinated with TDEC, the Comptroller's Office and the Department of Finance and Administration to ensure appropriate internal controls and proper accounting procedures.

Short term goal and status:

2. Manage an effective and efficient CWSRF loan program.

   Status: In FY19, TDEC developed new Standard Operation Procedures (SOP) for technical and financial review process for projects and developed a streamlined contacts database.

SECTION IV: PROJECT FILES REVIEWED

Two project files were reviewed during the annual oversight review. These projects were:

Dyersburg, a $2,500,000 ($500,000 principal forgiveness) 20-year loan for planning and design for infiltration and inflow correction. The loan was signed October 24, 2019. The interest rate was 0.38 percent.

Oliver Springs, a $500,000 all principal forgiveness loan for planning and design for infiltration and inflow correction. The loan was signed October 19, 2019.

All projects were eligible for SRF funding and followed all environmental review and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS REPORTING

During FY20, the state entered into 14 new loans totaling $150.5 million with local governments.

TDEC updated the Clean Water Benefits Reporting (CBR) database as required by the grant agreement in a timely fashion. All necessary information about projects funded in FY20 was entered into the CBR system.

SECTION VI: CASH DRAWS

Draws were reviewed during the annual oversight review. The draws were: $839.35 on December 31, 2019; $80,309.17 on July 2, 2020; $487,262.50 on June 29, 2020; and $2,004,065.83 on July 2, 2020; No improper payments were identified.

SECTION VII: FINANCIAL INDICATORS

Return on federal investment is a performance measure used to evaluate the efficiency of an investment, that is, it measures gain (or loss) generated relative to the federal dollars invested. The state's return on federal investment is 248% compared with the national average of 284%. (Figure 1)

The national average for the pace of the program in the CWSRF is 98 percent. As of June 30, 2020, the pace of the CWSRF was 97%. (Figure 2)

Disbursements as a percentage of assistance provided shows how quickly loans are being disbursed to borrowers, which follows costs incurred. TDEC's disbursement percentage is 81% compared to the national average of 87%. (Figure 3)

Uncommitted balances are the amount of funds the state has available for loans that are not committed to loans. Tennessee's uncommitted balance for FY20 is $42.30 million, with a ratio of .94%. (Figure 4)

On the basis of our financial review, we conclude the TDEC CWSRF is in sound financial condition.

SECTION VIII: FOLLOW UP ON PRIOR YEAR PROGRAM EVALUATION REPORT RECOMMENDATIONS

The following items were the EPA recommendations for the TDEC CWSRF program in the FY19 CWSRF Program Evaluation Report:

1. It is recommended that the state add American Iron and Steel to the inspection checklist.

   Status: The state has fulfilled this recommendation.

2. It is recommended that the state continue to follow the six affirmative steps and try to increase DBE participation.

Status: The State continues to take the necessary steps to ensure DBE participation.

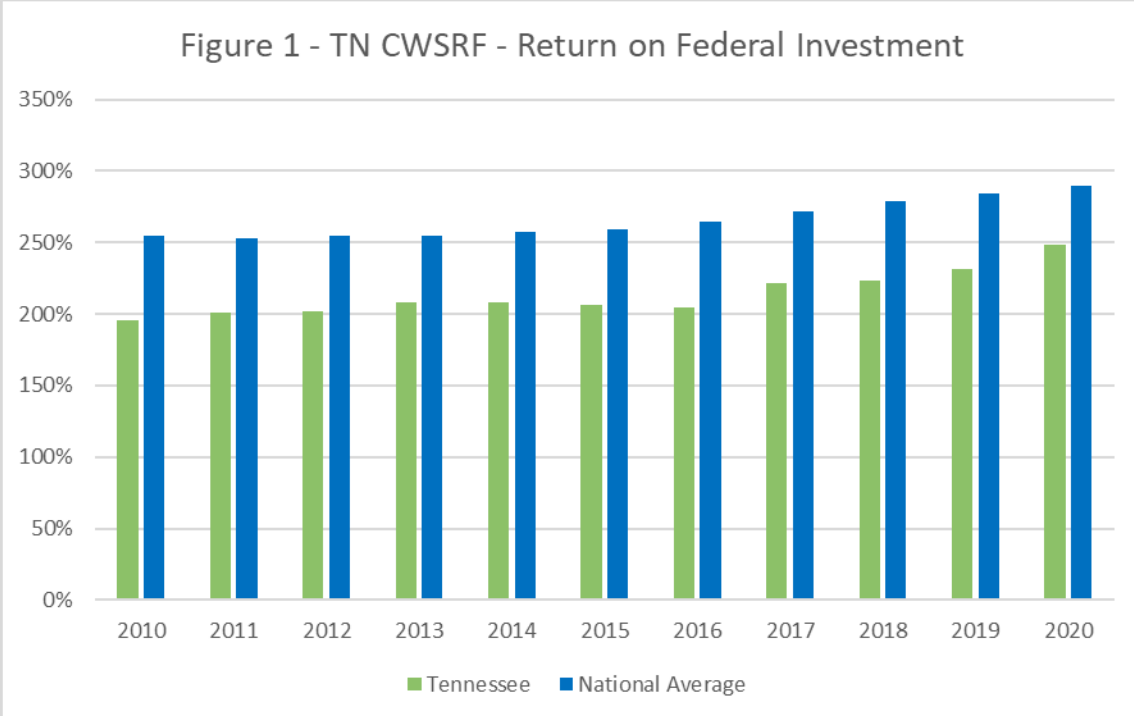
SECTION IX: RECOMMENDATIONS

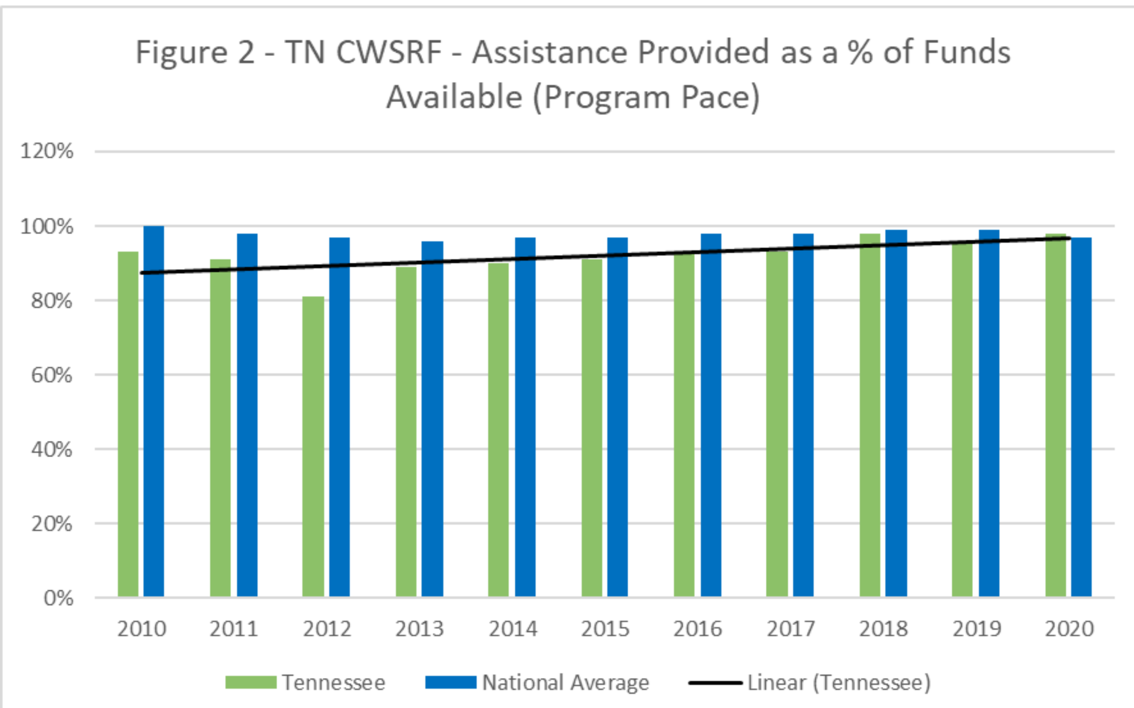
There are no recommendations for the TDEC CWSRF program in this year's review.

SECTION X: FINDINGS

There are no findings for the TDEC CWSRF program in this year's review.

APPENDIX: CWSRF Program Financial Indicators





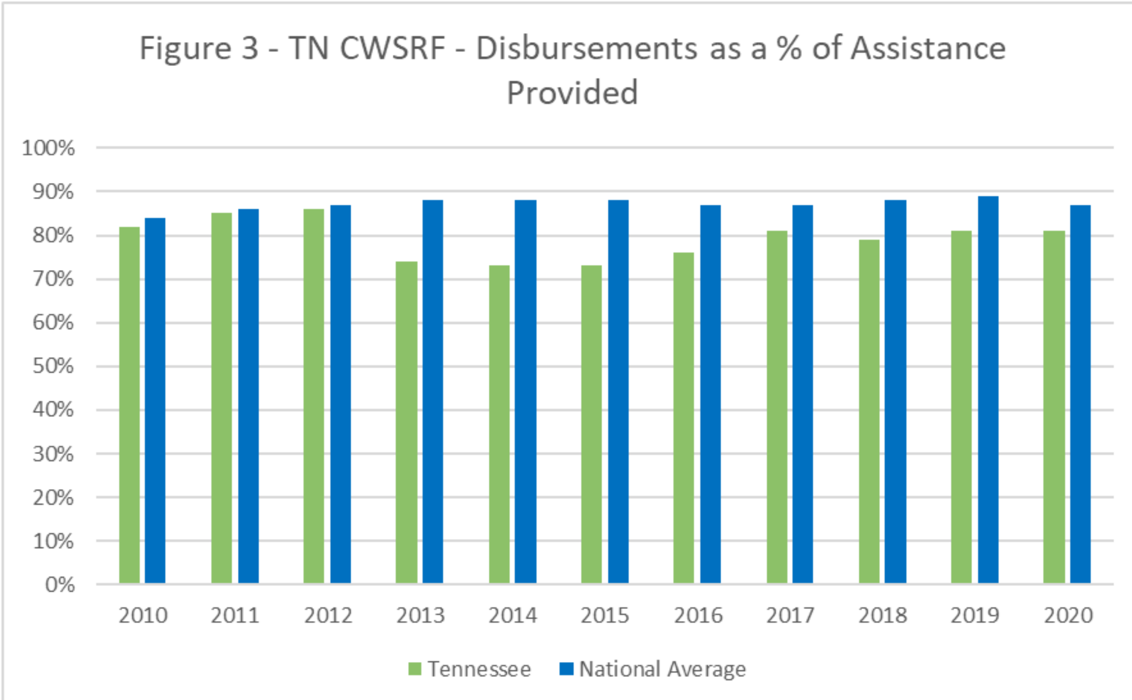


Figure 3 - TN CWSRF - Disbursements as a % of Assistance Provided
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Tennessee
National Average

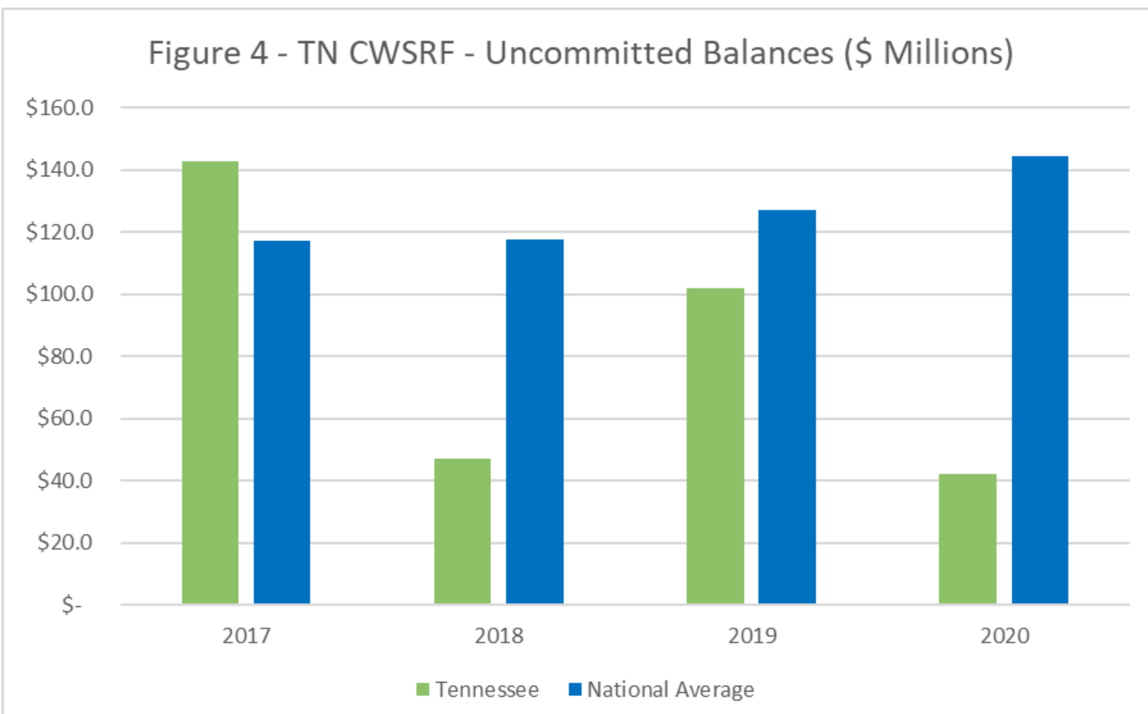


Figure 4 - TN CWSRF - Uncommitted Balances ($ Millions)
$160.0
$140.0
$120.0
$100.0
$80.0
$60.0
$40.0
$20.0
$-
2017
2018
2019
2020
Tennessee
National Average

Agenda Item #6

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

To:	Members of the Tennessee Local Development Authority (TLDA) Audit Committee
From:	Sandi Thompson, Director, Division of State Government Finance (SGF) Sandi Thompson
Date:	May 19, 2021
Subject:	Risk Assessments

The management risk assessments for the SGF and the Division of Water Resources are attached. These annual reports address agency-wide risk management and internal control requirements of Tenn. Code Ann. § 9-18-102, known as the Tennessee Financial Integrity Act, as amended.

This code requires that each agency of state government and institution of higher education to establish and maintain internal controls, to provide reasonable assurance that:

(1) Obligations and costs are in compliance with applicable law;
(2) Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and
(3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

To document compliance with the requirements set forth above, the code requires that each agency of state government and institution of higher education annually perform a management assessment of risk and that the internal controls discussed above be incorporated into such assessment.

The objectives of the annual risk assessment are:

(1) to provide accountability for meeting program objectives;
(2) to promote operational efficiency and effectiveness;
(3) to improve reliability of financial statements;
(4) to strengthen compliance with laws, regulations, rules, and contracts and grant agreements; and
(5) to reduce the risk of financial or other asset losses due to fraud, waste and abuse.

Ia INTERNAL AUDITOR

Agenda Item #9

Control During the Pandemic

Internal audit can help assess how changes made in response to COVID-19 have altered risks and impacted internal control.

Israel Sadu

May 12, 2021

Crisis situations create new needs, solutions, and risks. To perform well during the current pandemic, businesses continue to introduce new systems and delivery models that may bring unintended risks, including the risk of fraud. These rapid changes to the internal control environment run the gamut from changes to regulations, to governance, to business models, to staffing needs. For some organizations, these changes may create new or intensified material risks.

The audit committee, board, and management tasked with corporate governance are responsible for identifying and assessing new risks that might arise from significant system changes. With their insight into audit clients' internal controls, internal auditors are positioned to provide assurance on their continued effectiveness.

Regulatory Changes

Regulatory changes enacted during the pandemic have resulted in operational interruptions, trade restrictions, data privacy issues, corporate disclosures, and prosecutions. For example, governments around the world have enacted liquidity support schemes and other regulations addressing financial institutions' preparedness to address the operational, financial, and other risks associated with the COVID-19 crisis. Regulators also have issued alerts and guidance for consumers.

In the backdrop of financial and operational challenges, these changes might affect implementation and oversight of organizational policies and procedures meant to ensure regulatory compliance. Consequently, some organizations might fail to comply with legal or regulatory requirements, which may create significant opportunities for committing fraud.

Internal auditors should assess the risks presented by regulatory changes. The best way to get a good understanding of the changes is to participate in regulatory impact assessments and follow-up reviews. These exercises also give internal audit an opportunity to understand the potential long-term challenges the organization faces and factor them into audit planning.

Governance

A critical impact of the crisis may be that regulators and stakeholders will expect boards to evaluate the impact of pandemic-specific lessons and experiences through innovative governance models. Considering the exacerbated uncertainties and volatility, boards may approve unprecedented levels of investment to ensure business continuity. In a time when the organization must make difficult decisions about its liquidity, dividend payments may raise government scrutiny, reputational risk, and opportunity costs. Such payments also may expose the organization to unintended system changes and challenges.

Transparency in governance is of heightened importance during this crisis. Internal auditors should actively seek timely information on key governance matters to effectively carry out their responsibilities.

Changing Business Models

Organizations are using artificial intelligence tools to evaluate scenarios and adopting agile business models aimed at reducing costs and accessing new markets. Additionally, 78% of nearly 700 respondents to PwC's August 2020 global CEO Panel survey say "remote collaboration and automation are here to stay." Such innovations may bring significant changes in the roles and relationships of management, staff, suppliers, and stakeholders, and how those roles may be assigned, combined, or separated. In turn, these changes may involve accountability, sustainability, and scalability risks.

Outsourcing and dependence on vulnerable third-party services in supply and distribution networks have increased significantly throughout the pandemic, requiring additional oversight. To the extent that an organization relies on third parties as part of its control environment, business disruptions related to those partners can become a key risk to address.

During the pandemic, there is a risk that businesses will continue to use the performance measures they used before the pandemic. These measures may not be aligned with emerging risks and changes in their internal controls. For example, the pre-pandemic measures may not have prioritized cyber risks, but now remote work arrangements, technology, and workforce reductions may heighten this risk.

Internal auditors should ask key questions, such as what fundamental changes have taken place to the business models during the pandemic? Are these critical, and if so, what are their potential short- and long-term impacts? With this understanding, auditors can help management visualize what its business environment will look like after the pandemic and start working toward a robust business model.

Bankruptcies

Bankruptcies mar the business environment. One-fourth of U.S. companies are at severely high risk of bankruptcy because of the pandemic, according to Creditsafe's COVID-19 Impact Score research, conducted in May 2020. Internal auditors must thoroughly understand the pandemic's influence on internal controls and work through careful engagement planning, sampling, testing, and documenting the evidence gathered.

Changing Staff Competency Needs

Despite the pandemic, there has been a considerable increase in recruitment in certain sectors such as health care, pharmaceuticals, food, and consumer goods. It is expected that competencies most in demand will be a combination of traditional skills and proficiencies around continually emerging risks such as cybersecurity, health and safety, data analytics, and fraud management. Ideally, people hired will bring new skills that match the new model, but that may not happen if organizations are in a rush to fill key positions to implement a new business model. For example, a November 2020 KPMG report advises that e-commerce companies that are recruiting executives for growing business functions should be cautious of candidates who may lie about their qualifications or past experience.

Internal auditors should look for the significant changes in their organization's recruitment policies and procedures during the pandemic. They should be concerned about the adequacy of the procedures followed for job descriptions and skill matching, as well as the digital tools used for interviewing candidates.

Heightened Fraud Risks

The pandemic has upended normal processes and activities, which may leave businesses more susceptible to fraud. During the 2008 recession, most anti-fraud professionals reported an increase in fraud, and 80% said fraud was more likely in times of economic distress, according to an Association of Certified Fraud Examiners survey, Occupational Fraud: A Study of the Impact of an Economic Recession.

Shifting to mass remote working, security vulnerabilities in home office networks, and elevated monetary strain provide perfect settings for fraudsters. An Interpol assessment of the impact of COVID-19 on cybercrime shows a significant target shift from individuals and small businesses to large companies, governments, and critical infrastructure, which it expects will escalate.

Management and internal auditors should remain vigilant of the potential fraud vulnerabilities during the pandemic, including:

- New business models that may not be compliant with fighting fraud risks, and lack of key performance indicators to monitor the triggering events.
- Restricted third parties that have been sanctioned or barred by the government, which the business may have hired because of inadequate vetting of their credentials.

- Accounting malpractices to remain in business in response to long-term restrictions due to the lockdowns.
- Key changes to the delegation of authority and inadequate oversight over these actions.
- Relaxation of segregation of duties and monetary limits in place for procurement.
- Partnerships in nations that may be at high risk of corruption and nepotism or have lengthy compliance mechanisms, which employees and governments may not be able to handle.
- Vulnerabilities in the wireless routers used by home-based workers that may expose the organization to cyber intrusion or attacks.
- Absence of oversight over new IT systems and their interfaces.
- Weaknesses in virtual recruitment procedures.
- Employees who perform duties outside of their skill set, particularly related to fraud.
- Employees suffering from financial stress and pressure to meet performance targets, which may heighten incentives for committing fraud.

Audit's Response

The key to assessing the impact of risks influenced by the pandemic is understanding the before and after statuses to identify the changes. However, revisiting the entire set of internal controls may strain internal audit's resources. One practical solution is for internal audit to facilitate a remote, technology-enabled self-assessment that allows management to quickly assess how the controls may have changed.

That said, auditors may need to perform some new tests either to validate earlier results or to test control effectiveness to determine the extent of change. Depending on the magnitude of changes, this exercise could be undertaken either as a part of a planned engagement or as a separate engagement through a multipronged approach that includes:

- Identifying the key business areas impacted during the crisis.
- Evaluating the impacted areas for changes in governance, risk management, and internal controls — particularly those related to changes in the delegation of authority and reporting lines.
- Reviewing the adequacy of oversight procedures established over the impacted areas for enhanced monitoring.
- Assessing the magnitude of impact the changes have had to determine whether the business is operating as it was previously.
- Assessing the effectiveness of alternative controls established where historic controls are no longer effective.
- Assessing the adequacy of the tools used for forecasting and scenario planning to remain as a going concern.
- Documenting the results of the assessment and changes in processes and controls.
- Communicating changes in processes and controls to staff members who are responsible for them, senior management, and the board.
- Developing a schedule for undertaking disaster recovery tests and recording the lessons learned to assist the business in transition from crisis response to business resumption.

- Establishing a protocol for updating control descriptions and control effectiveness in the impacted areas at regular intervals until normalcy sets in and feedback is fed into the review mechanism.
- Developing a dashboard to provide a clear perspective of changes in the internal controls to facilitate creating an appropriate and actionable roadmap of risk mitigation strategies.

Internal Audit's Balancing Act

Despite challenges in the fast-changing business operating environment, int-ernal auditors continue to provide quality services by effectively adapting their processes. In the early months of the pandemic, internal audit functions reported they expected their budgets to decrease, according to a June 2020 IIA survey, COVID-19: Longer Term Impact on Internal Audit. As the crisis has continued, though, most internal audit leaders surveyed say their budgets have remained the same or increased, reports the 2021 North American Pulse of Internal Audit (see "Audit's Pulse Is Strong"). Only 17% cut their internal audit staff budget, and 26% decreased external staffing.

These findings may indicate that given the heightened control risks, internal auditors may be more relevant than ever. Balancing this act will test auditors' own ability to perform well during the crisis. Through prioritization and realignment with stakeholders' needs, auditors should be in a strong position to assist the organization in effectively navigating through the next normal.

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