STATE OF TENNESSEE

AUDIT MANUAL

AUDITING, ACCOUNTING, AND REPORTING FOR LOCAL GOVERNMENTAL UNITS AND OTHER ORGANIZATIONS

STANDARDS AND PROCEDURES

JUNE 2015
(EFFECTIVE FOR AUDITS ISSUED AFTER JUNE 30, 2015)

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PREFACE

This manual supersedes the following manuals:

- June 2014 State of Tennessee Department of Audit, *Audit Manual*;.
- 1998 *Accounting and Financial Reporting for Not-for-Profit Recipients of Grant Funds in Tennessee*
- February 1999 *Accounting Manual for Recipients of Grant Funds in Tennessee*

This manual should be used by all organizations that report to the Division of Local Government Audit, including, but not limited to, local governments, nonprofit organizations receiving grant funds, and agencies receiving funds from the Department of Intellectual and Developmental Disabilities when preparing financial reports and for audits issued on or after June 30, 2015. This manual addresses auditing requirements and reporting requirements for Tennessee governmental units, recipients of subrecipient funds and other organizations.

The information in this manual is provided to help local governments and other organizations as well as auditors gain a basic understanding of the governmental environment in Tennessee. The manual includes general auditing and reporting standards and requirements (Section A) and characteristics of specific entities (Sections B through K). A brief reference listing with web links is included as well (Section L). The appendices include selected schedule examples, selected references to *Tennessee Code Annotated* for counties, municipalities, and utility districts and other organizations, some suggested audit procedures, current developments, and other miscellaneous information.

This manual directs Tennessee governmental units, recipients of subrecipient funds, other organizations and auditors to appropriate literature and addresses unique reporting requirements of the Comptroller of the Treasury, State of Tennessee. Detailed information can be found in the appropriate AICPA industry audit guides, *AICPA Professional Standards*, *Government Auditing Standards,* OMB circulars and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, standards developed by the Institute of Internal Auditors, etc. To comply with the standards, Tennessee governmental units, recipients of subrecipient funds, other organizations and auditors must be knowledgeable of the most recent changes in accounting and/or auditing.

For questions about this manual, please contact the Comptroller of the Treasury, Department of Audit.

Local Government Audit	State Audit
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Introduction

This manual sets forth, for Tennessee local governmental units, nongovernmental entities receiving subrecipient funds from or through the state, and other organizations:

- the standards and requirements for audits;
- the accounting and internal control framework that should be followed; and
- various general compliance matters.

By statutory authority, the comptroller of the treasury prescribes the standards and requirements for the audit of local governments, grantee agencies and other organizations. Auditors on the comptroller's staff, internal auditors, and certified public accountants must comply with the comptroller's standards and requirements when conducting applicable audits.

The comptroller of the treasury also prescribes, by statutory authority and contractual provisions, the accounting and internal control framework that should be followed.

Other reporting and compliance requirements addressed in this manual are derived from federal and state laws and regulations as well as contractual provisions.

Statutory and Contractual Authority - Audits

<u>Audits - All governments and grantees</u>

Sections 4-3-301–304, *Tennessee Code Annotated*, establishes the department of audit and requires the comptroller of the treasury, as administrative head of the department of audit to

(1) (A) Perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller of the treasury;

(B) Make annually, and at such other times as the general assembly shall require, a complete report on the post audit, such report to be in the form provided by §§ 8-4-109 [through] 8-4-111 and by any subsequent legislation;

(2) Certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as prepared by the department of finance and administration, or by the state treasurer, before publication of such statements;

(3) Serve as a staff agency to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances;

(4) Make annually an audit of all the records of the several counties of the state, including the offices of county trustees, circuit court clerks, criminal court clerks, county clerks, and clerks and masters of chancery courts, and all county mayors and

judges of the courts of general sessions, specifically including the accounts of all "trust funds" in the hands of clerks and masters, or county clerks, or both, and any other county official, whether elected or appointed;

(A) In lieu of the audit required under the provisions of this subdivision (4), the department may accept an audit made by an independent certified public accountant. employed at the expense of the county, if the audit made by such independent certified public accountant . . . meets the minimum standards for county auditing established by the comptroller of the treasury, and approved by the governor;

(B) The audit shall be made annually and copies of the audit furnished to the comptroller of the treasury;

(C) Any county having an audit made by an independent certified public accountant . . . under the conditions prescribed in this subdivision (4) shall be relieved of paying to the state the fee required by § 9-3-210;

(D) Beginning July 1, 1974, the department shall prepare the audit required under the provisions of this subdivision (4) in each county of this state at least once in every five-year period, and shall not accept an audit prepared by a certified public accountant . . . in lieu of a state audit for more than four (4) years in every five-year period beginning July 1, 1974, or may, in such manner as the comptroller of the treasury may determine, participate with or monitor the audit with the independent certified public accountant . . .;

(5) Devise a modern, effective and uniform system of bookkeeping and accounting, subject to the approval of the governor, comprehending:

(A) An efficient system of checks and balances between the officers at the seat of government entrusted with the collections and receipts, custody and disbursement of the revenues of the state; and

(B) A system of bookkeeping and accounting, for the use of all county officials and agencies handling the revenues of the state or of any political subdivision thereof; provided, that the comptroller of the treasury and the governor may approve any existing system;

(6) Perform economy and efficiency audits, program results audits and program evaluations. Any or all of the elements of an audit may be performed, including financial and compliance, economy and efficiency program results and program evaluation;

(7) Require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller of the treasury, and any such audit reports as may be issued shall be

prepared in accordance with standards established by the comptroller of the treasury. No department, agency, institution, board, commission or authority shall cause internal auditing to be performed by persons who do not meet the job specifications for internal auditors established by the commissioner of personnel and approved by the commissioner of finance and administration and the comptroller;

(8) Require that all persons, corporations or other entities receiving grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller of the treasury; and

(9) Establish minimum standards for the performance of audits by the internal audit staffs of local governments, special taxing districts, utility districts, political subdivisions, state departments, boards, commissions, institutions, agencies, authorities or other entities of the state. These standards, which shall be established by the comptroller of the treasury, shall include "Standards for the Professional Practice of Internal Auditing" published by the Institute of Internal Auditors, Inc., or such other standards as may be approved by the comptroller of the treasury. All audit reports issued by such internal audit staffs shall include a statement that the audit was conducted pursuant to these standards.

Audits - Grantees/Subrecipients

Section 4-3-304 (8), *Tennessee Code Annotated*, states that all persons, corporations or other entities receiving grants from or through the state shall cause a timely audit to be performed in accordance with the auditing standards prescribed by the comptroller of the treasury. The comptroller has hereby prescribed that any nongovernmental entity that expends $500,000 or more (for newer contracts, the amount has been increased to $750,000) under a state contract which establishes a subrecipient relationship (which may include federal pass-through awards) during a year is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

Audits - TNInvestcos

Section 4-28-110(a)(4), *Tennessee Code Annotated*, requires TNInvestco entities that administer funds for economic development in the State of Tennessee to have an audit conducted within 180 days of the close of their fiscal year. These entities are required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

Audits - Municipalities

Section 6-56-105, *Tennessee Code Annotated*, directs the comptroller of the treasury, as administrative head of the department of audit, to ensure that annual audits are made of the accounts and records of each municipality in the State of Tennessee.

Audits – Tourism Development Authority

Section 7-69-109, *Tennessee Code Annotated*, states that the board of directors of each authority shall cause an annual audit to be made of the books and records of the authority. The comptroller of the treasury, through the department of audit, shall be responsible for determining that the audits are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller of the treasury.

Audits - Utility Districts

Section 7-82-401, *Tennessee Code Annotated*, states that the department of audit is responsible for ensuring that the audits of utility districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum audit standards prescribed by the comptroller.

Audits - Emergency Communication Districts

Section 7-86-113, *Tennessee Code Annotated*, states that the comptroller of the treasury, through the department of audit, shall be responsible for ensuring that the audits of emergency communication districts are prepared in accordance with generally accepted government auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Convention Center Authorities

Section 7-89-110, *Tennessee Code Annotated* states: "…The comptroller of the treasury, through the department of audit, shall be responsible for determining that the audits are prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller of the treasury….The audits shall be prepared by certified public accountants or by the department of audit. In the event the governing body of the authority fails or refuses to have the audit prepared, then the comptroller of the treasury may appoint a certified public accountant, or direct the department of audit, to prepare the audit, the cost of the audit to be paid by the authority….Each authority shall prepare an annual report of its business affairs and transactions. A copy of the report and a copy of the annual audit referenced in subsection (a) shall be filed annually with the governing body of the municipality granting permission to the authority to organize."

Audits – Medical School Authorities

Section 7-90-110, *Tennessee Code Annotated* states: "The comptroller of the treasury, through the department of audit shall be responsible for determining that such audits are prepared in accordance with generally accepted governmental auditing standards and that such audits meet the minimum standards prescribed by the comptroller of the treasury. Such audits shall be prepared by certified public accountants or by the department of audit. In the event the governing body of the authority shall fail or refuse to have the audit prepared, then the

comptroller of the treasury may appoint a certified public accountant, or direct the department of audit, to prepare the audit, the cost of such audit to be paid by the authority. Each authority shall prepare an annual report of its business affairs and transactions. A copy of such report shall be filed with the municipality granting permission to the authority to organize."

Audits – Comptroller Authorized to Audit Entities

Section 8-4-109, *Tennessee Code Annotated,* authorizes the comptroller of the treasury to audit any books and records of any governmental organization that is created under and by virtue of the statutes of the State of Tennessee and that handles public funds when the comptroller deems an audit is necessary or appropriate.

Audits – Local governments and internal audit staff

Section 9-3-211, *Tennessee Code Annotated,* requires an annual financial audit of each office, department, agency, division, or board charged with the care and control of a local government's public funds. Any audit performed by the internal audit staff of such an entity must be in accordance with the standards established by the comptroller.

Audits – Governmental entities

Section 9-3-212, *Tennessee Code Annotated,* states that it shall be the duty of the governing body of each political subdivision, special taxing district, board, commission, educational cooperative, intergovernmental cooperative, or other governmental agency to contract and pay for an annual audit. This section also establishes the comptroller of the treasury's responsibility for ensuring that such audits are performed in accordance with generally accepted government auditing standards and that such audits meet the minimum standards prescribed by the comptroller. Also, the comptroller of the treasury may require additional investigative or review work, to be paid for by the entity.

Audits – Copy furnished to Comptroller

Section 9-3-213, *Tennessee Code Annotated,* requires that the auditor furnish a copy of the local government audit report to the comptroller of the treasury.

Audits – Public building authorities

Section 12-10-109, *Tennessee Code Annotated*, states that the comptroller of the treasury, through the department of audit, shall be responsible for ensuring that the audits of public building authorities are prepared in accordance with generally accepted governmental auditing standards and that the audits meet minimum audit standards which shall be prescribed by the comptroller of the treasury.

Audits – Development Districts

Section 13-14-112, *Tennessee Code Annotated,* requires each development district to submit an annual report of its activities to the governor, general assembly, and commissioner of finance

and administration. The annual report shall be audited by the comptroller or an independent public accountant.

Audits – Human Resource Agencies

Section 13-26-106, *Tennessee Code Annotated,* requires each human resource agency to submit an annual report of its activities to the governor, general assembly, and commissioner of finance and administration. The annual report shall be audited by the comptroller or an independent public accountant.

Audits – Insurance Pools

Section 29-20-401(g)(1)(A), *Tennessee Code Annotated,* requires "An insurance pool, special fund, reserve fund, or legal or administrative entity administering any such pool or fund created and authorized under this section shall be audited annually in accordance with standards established by the comptroller of the treasury. A copy of the audit shall be filed with the comptroller as soon as practical, but in no event later than one hundred twenty (120) days following the end of the pool's or reserve fund's fiscal year. Notwithstanding this subdivision (g)(1)(A), the operations, books and records of any pool or reserve fund shall be subject to audit and review by the comptroller or any person authorized by the comptroller. The commissioner of commerce and insurance shall assist the comptroller in the audit upon the written request by the comptroller".

Audits – Community corrections

Section 40-36-303(d)(1-3), *Tennessee Code Annotated,* requires an annual audit of recipients of community corrections funds and states that the comptroller of the treasury shall ensure that the audits of recipients of community correction funds are prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Tennessee Dairy Promotion Committee

Section 44-19-119(c), *Tennessee Code Annotated,* requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Schools

Section 49-2-112, *Tennessee Code Annotated,* states that the department of audit is responsible for ensuring that the audits of local school activity and other internal school funds are prepared in accordance with generally accepted government auditing standards and for determining that the audits meet minimum audit standards and regulations prescribed by the comptroller.

Audits – Charter Schools

Section 49-13-111, *Tennessee Code Annotated*, states that each charter school is subject to state audit procedures and audit requirements and shall publish an annual financial report that includes audited financial statements.

Audits – Regional Authorities

Sections 64-11-101, *Tennessee Code Annotated*, provides that regional authorities must file an annual financial audit with the comptroller of the treasury.

Audits – Railroad Authorities

Sections 64-2-111, 211, 311, and 411, *Tennessee Code Annotated*, require an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Four Lake Regional Industrial Development Authority

Section 64-5-213(c), *Tennessee Code Annotated*, requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Regional Development Authorities – Greater Nashville Regional Council

Section 64-7-107, *Tennessee Code Annotated*, requires an annual report to be submitted which is subject to audit by the comptroller of the treasury or by a licensed independent public accountant. The comptroller of the treasury shall ensure that the audit is prepared in accordance with generally accepted governmental auditing standards and that the audits meet the minimum standards prescribed by the comptroller.

Audits – Medicaid providers

Section 71-5-130, *Tennessee Code Annotated*, states that the comptroller of the treasury shall determine payments to Medicaid providers in accordance with rules established by the department of health. To determine payments to providers, the comptroller is authorized to enter into contracts with other state agencies or organizations providing such services. The comptroller, in consultation with the department of health, may require that cost data submitted by providers be certified by a certified public accountant. All cost data submitted to the comptroller's office is subject to audit.

Audits – Medicaid Waiver program

Contractual agreements with the Department of Intellectual and Developmental Disabilities (DIDD) require agencies contracting under the medicaid waiver program to have an audit. Although these contracts establish a vendor relationship, the DIDD services contract and the DIDD provider manual both require that an annual audit be conducted. The types of entities that participate in this program vary widely and include sole proprietorships, limited liability corporations, partnerships, nonprofit corporations, etc. Each agency, regardless of the form it operates under, that expends $500,000 or more (for newer contracts, the amount has been increased to $750,000) under these contracts is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

Statutory and Contractual Authority – Accounting/Internal Control

Record keeping – Utility Districts

Section 7-82-401(a)(2)(A) and (B), *Tennessee Code Annotated*, states: "…In all counties and districts, except as provided in subdivision (a)(2)(B), the comptroller of the treasury shall prepare a uniform accounting manual and shall promulgate such other rules and regulations as are required to assure that the books and records are kept in accordance with generally accepted accounting principles…In gas utility districts, and in the counties having the following populations, according to the 1980 federal census or any subsequent census, the comptroller of the treasury shall promulgate such rules and regulations as are required to assure that the books and records are kept in accordance with generally accepted accounting procedures…".

Record keeping – Emergency Communications Districts

Section 7-86-304, *Tennessee Code Annotated*, states "The comptroller of the treasury is directed to develop a uniform financial accounting system conforming to generally accepted accounting principles for use as required by this section. Effective July 1, 1999, each emergency communications district shall use the uniform accounting system developed by the comptroller of the treasury…."

Record keeping – Governmental Entities

Section 9-2-102, *Tennessee Code Annotated*, states that it is the duty of the department of audit to prescribe a uniform system of bookkeeping, designating the character of books, reports, receipts, and records and the method of keeping them in all state, county, and municipal offices, including utility districts, which handle public funds. Any existing system may be approved by the comptroller of the treasury, subject to the concurrence of the commissioner of finance and administration.

Record keeping – Development Districts

Section 13-14-108, *Tennessee Code Annotated*, states: "The comptroller of the treasury is directed to develop a uniform accounting system conforming to generally accepted accounting principles for the governing boards operating under this chapter…."

Record keeping – Human Resource Agencies

Section 13-26-109, *Tennessee Code Annotated*, states: "The comptroller of the treasury is directed to develop a uniform accounting system conforming to generally accepted accounting principles for the governing boards operating under this chapter…."

Record keeping – Community Service Agencies

Section 37-5-313(a), *Tennessee Code Annotated*, states: The community services agencies shall maintain all books and records in accordance with generally accepted accounting principles, and at no less than those recommended in the *Accounting Manual for Recipients of Grant Funds in Tennessee* published by the comptroller of the treasury.

Record keeping – Undercover Investigative Operations

Section 39-17-420(e), *Tennessee Code Annotated*, states: "The comptroller of the treasury and the department of finance and administration, in consultation with the Tennessee bureau of investigation, the Tennessee sheriffs' association and the Tennessee association of chiefs of police shall develop procedures and guidelines for handling cash transactions related to undercover investigative operations of county or municipal drug enforcement programs. The procedures and guidelines shall be applicable to the disbursement of proceeds from the drug enforcement program…"

Record keeping – Community Corrections

Section 40-36-303, *Tennessee Code Annotated*, states: "…The comptroller of the treasury is directed to develop a uniform accounting system conforming to generally accepted accounting principles for the boards operating under the provisions of this chapter. The uniform accounting system shall be subject to the approval of the commissioner of finance and administration. Upon the approval of the commissioner of finance and administration, each local community corrections advisory board shall establish and maintain the uniform accounting system."

Record keeping – Student Activity Funds

Section 49-2-110(e), *Tennessee Code Annotated*, states: "The department of education shall prepare a uniform accounting policy manual for local school systems, subject to the approval of the comptroller of the treasury and the commissioner of finance and administration, and each local school system is required to adopt the manual when issued and maintain all activity fund books and records in accordance with the requirements of the manual."

Record keeping – School Support Organizations

Section 49-2-610, *Tennessee Code Annotated*, states: "The office of the comptroller of the treasury is authorized to adopt a model financial policy for school support organizations."

Record keeping – Public Charter Schools

Section 49-13-111(m), *Tennessee Code Annotated*, requires a public charter school to maintain its accounts and records in accordance with generally accepted accounting principles and in conformance with the uniform chart of accounts and accounting requirements prescribed by the comptroller of the treasury.

Record keeping – Four Lake Regional Industrial Development Authority

Section 64-5-213(c), *Tennessee Code Annotated*, states: **"**The comptroller of the treasury is directed to develop a uniform accounting system conforming to generally accepted accounting principles for the authority."

Record keeping – Regional Development Authorities – Greater Nashville Regional Council

Section 64-7-105, *Tennessee Code Annotated*, states: "The regional council shall establish and maintain the uniform accounting system as developed by the comptroller of the treasury and approved by the commissioner of finance and administration in compliance with the provisions of Section 13-14-108, *Tennessee Code Annotated*, as they relate to development districts."

Record keeping – Solid Waste

Section 68-211-874, *Tennessee Code Annotated*, states: "…Each county, solid waste authority and municipality shall use a uniform solid waste financial accounting system and chart of accounts developed by the comptroller of the treasury. (b) The comptroller of the treasury is directed to develop a uniform financial accounting system conforming to generally accepted accounting principles for use as required by this section. (c) Such uniform accounting system shall be subject to the approval of the commissioner of finance and administration. Upon such approval, each county shall establish and maintain the uniform solid waste financial accounting system."

Statutory and Contractual Authority – Miscellaneous Filings

Annual Filing - Specialty License Plates

Section 55-4-201(k), *Tennessee Code Annotated*, states "By September 30, 2008, and September 30 each following year, all nonprofit organizations receiving proceeds from the sale or renewal of a new specialty earmarked license plate shall submit an annual accounting of all such funds received from July 1 to June 30 of the preceding state fiscal year to the comptroller of the treasury. The comptroller of the treasury may audit any nonprofit organization receiving funds from a new specialty earmarked license plate to ensure that the funds are being used in accordance with statutory authority for the plate, and the cost of the audit shall be charged to the nonprofit organization;…".

Filing - Interlocal Agreements - Creation:

Section 12-9-111, *Tennessee Code Annotated*, states: "Any interlocal agreement entered into by local government entities that creates a local government joint venture entity shall be filed in the office of the comptroller of the treasury within ninety (90) days of execution of the agreement."

Filing – Interlocal Agreements – Annual and Updates

Section 12-9-112, Tennessee Code Annotated, requires local government joint ventures to file information with the comptroller's office annually. The statute permits the comptroller to develop guidelines in furtherance of the administration of this section. There are two types of local government joint ventures, those that have an annual audit requirement and those that file unaudited financial information with the comptroller's office.

The requirements for those that must have an annual audit are located in **Section D** of this manual.

The requirements for those that are not required to have an annual audit, but must file financial information are located in **Section K** of this manual.

Annual Filing – Volunteer Fire Departments

Section 68-102, part 3, *Tennessee Code Annotated*, states: "…governing board of each recognized volunteer fire department receiving appropriations from the federal government, the state, a county, or a municipality, either directly or indirectly, shall file an annual financial report with the comptroller of the treasury and with each local government body from which the department received appropriations. The annual financial report shall be for the year ended June 30, in a form prescribed by the comptroller of the treasury, and such governing board shall file the report within six (6) months of the close of its fiscal year."

SECTION A
GENERAL INFORMATION

Comptroller's Responsibility

In 1937, the General Assembly created a Department of Audit in Tennessee state government and designated the Comptroller of the Treasury as the administrative head of this department. Various sections of *Tennessee Code Annotated* set forth the Comptroller's duties for auditing the accounts and records of departments, institutions, and agencies of state and local government.

The Comptroller of the Treasury is the public official in Tennessee responsible for the audit of the various departments, institutions, and agencies of state government; nonprofit or private organizations receiving subrecipient and other funds from such entities; and Tennessee local governments and political subdivisions. For some of these entities, the Comptroller may accept audits prepared by certified public accountants in lieu of state audits, provided the contracts for such audits are approved by the Comptroller of the Treasury and provided that such audits meet minimum standards established by the Comptroller. Such contracts, excluding those for managed care organizations which must use a specialized contract form, are processed through a web based application known as the Contract and Report System (CARS). (sample ***CONTRACT TO AUDIT ACCOUNTS***) This manual and the related web links address the Comptroller's requirements for auditing such entities.

The Comptroller or the Comptroller's representative has authority to review the certified public accountant's audit documentation and the completed report to determine if standards and procedures prescribed by the Comptroller have been followed. Reviews may take place during the course of the audit or after the completion of the audit report. Such reviews are conducted to improve and give direction to the statewide audit effort.

Auditing Standards and Audit Requirements

The United States Government Accountability Office has published *Government Auditing Standards (GAS)* (***YELLOW BOOK***) which sets forth the auditing standards required for audits of all federal programs. The audits of Tennessee governmental units, recipients of subrecipient funds, and other entities subject to audit by the Comptroller shall conform to these standards regardless of whether the agency received federal funding or not. A statement in the auditor's report that the audit was made in accordance with *Government Auditing Standards* (generally accepted government auditing standards) will be acceptable language to indicate that the audit was made in accordance with these standards.

Those governmental units and recipients of subrecipient funding that are subject to any federal audit provisions must comply with those audit standards as well, which can be found at https://www.whitehouse.gov/omb/grants_docs/.

The statutory and contractual audit requirements for different entities are summarized in the introduction of this manual.

If, during the course of the audit, it becomes apparent that a disclaimer of opinion or adverse opinion will likely be required, the auditor should contact the Division of Local Government Audit.

Coverage

The audit must generally cover all funds and all offices, departments, agencies, or other units of the entity that collect or disburse funds or provide services or supervise any other assets belonging to the entity. Separate audits may be conducted for one or more departments if deemed necessary by the governing body and if approved by the Tennessee Comptroller of the Treasury.

Program-specific audits must be approved prior to the execution of a Contract to Audit Accounts. Section I includes general guidance for program-specific audits. Variances from these guidelines must be approved by the Tennessee Comptroller of the Treasury.

For governmental agencies, the reporting entity should be determined in accordance with standards established by the Governmental Accounting Standards Board (GASB). For nongovernmental agencies, the parent and all subsidiaries are normally included in the scope of the audit. Audits of agencies whose audit requirement is driven by funding from DIDD must include the parent and all subsidiaries. Audits of agencies whose audit requirement is NOT driven by funding from DIDD, may, if approved by the Comptroller of the Treasury of the State of Tennessee prior to executing a Contract to Audit Accounts, have an audit that only includes a particular subsidiary.

The auditor must consider materiality for any local government as provided for in the AICPA Audit and Accounting Guide, *State and Local Governments*.

The Comptroller of the Treasury shall require auditors of local governments to express an opinion on each of the opinion units which collectively comprise the basic financial statements required by the GASB Statement 34 financial reporting model. However, except for school activity funds and noncentralized cafeteria funds, a local government, at its option, may engage the auditor to also express an opinion on the combining and individual fund financial statements that are presented as supplementary information accompanying the basic financial statements. The combining and individual fund financial statements for activity funds and noncentralized cafeteria funds must be covered in the auditor's opinion on the financial statements.

For all audits, an opinion on whether accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. Minimum requirements for opining on the supplemental information are included in Sections B through H.

Additional audit coverage information specific to the type of entity being audited is located in the respective section(s) in this manual.

Audit Period

Audits should cover at least one fiscal year, 12 months, unless otherwise approved by the Comptroller. Ordinarily, the fiscal year ends on June 30 for Tennessee governmental entities. Unless prohibited by law, other fiscal year-ends may be allowed. All counties, municipalities, and internal school funds have a June 30 fiscal year-end. The fiscal year-end varies for utility districts, housing authorities, other special purpose governments, nonprofit and for-profit organizations.

Legal and Contractual Compliance

The auditor shall determine compliance with legal requirements in the handling of public funds. When presenting findings in the audit report, the auditor is responsible for directing particular attention to violations of federal and state laws and regulations, private acts, charter provisions, OMB circulars and uniform guidance, and subrecipient contract requirements.

Any reasonable suspicion of fraud discovered during the audit shall be **promptly reported in writing** by the auditor to the Comptroller of the Treasury, State of Tennessee. (See pages ***A-7 - 12*** for additional guidance.)

Competency

Audits must be conducted by either certified public accountants or the audit staff of the Comptroller of the Treasury. All auditors must have adequate training and experience in governmental accounting and be in good standing in their profession. An audit firm that receives a peer review rating other than pass is subject to additional scrutiny and may be required to submit their audit documentation for review prior to the release of an audit. Continued ratings other than pass may result in the audit firm not being eligible to conduct audits for the Comptroller of the Treasury. Additional information regarding actions that may be taken by the Comptroller of the Treasury can be found on the web at http://comptroller.tn.gov/la/ManualsGuidance.asp in the document titled "Peer Review and Audit Documentation Reviews".

Awarding Audit Contracts

Section 12-4-106, *Tennessee Code Annotated,* does not allow counties, municipalities, metropolitan governments, towns, utility districts, and other municipal and public corporations of this state to award audit contracts based on competitive bids. The audit contracts must be awarded on the basis of recognized competence and integrity. Although competitive bidding is prohibited, interviews may be conducted to determine the capabilities of eligible persons or groups.

The Comptroller's Office encourages all organizations to require audit firms to complete and submit a Request For Proposal. The Request For Proposal provides information that is extremely

beneficial in evaluating whether an audit firm possesses the necessary capabilities to conduct an audit of the organization. (***SAMPLE REQUEST FOR PROPOSAL – APPENDIX E***) If an audit organization needs to include a basic contract form in the request for proposal, a "sample" fill-in pdf contract can be accessed on the Comptroller's web site under Helpful Links at https://www.comptroller.tn.gov/RA_Upload/

Comptroller's Approval of Audit Contracts

The Comptroller has prescribed a uniform audit contract for (1) local and special purpose governments, nongovernmental organizations that meet the definition of a subrecipient, various other organizations that are required, by contract provision or miscellaneous TCA requirements, to have an audit and (2) managed care organizations contracting with the state's TennCare Program. Managed care organizations should use an electronic contract,(which can be found on the web at http://comptroller.tn.gov/shared/forms.asp) following the guidelines detailed later in this section. All other organizations are required to use the web based application known as the Contract and Report System (CARS) for executing the contract to audit accounts. The details for using this system are accessible through the CARS application. (***CARS***) Regardless of the method used, the contract should be properly executed and approved by the Comptroller before any audit work is begun.

Entities must use the Comptroller's Contract to Audit Accounts form (***CONTRACT TO AUDIT ACCOUNTS***) which is embedded in CARS. Managed care organizations must use a specialized contract form (***TENNCARE CONTRACT***). The Comptroller will not approve a retyped contract for managed care organizations or any contract not executed through CARS for all other organizations.

Audits of Group Financial Statements

The contract to audit accounts includes provisions in Section 8 to address certain requirements related to auditing requirements in the *AICPA Professional Standards*, Section AU-C 600. The changes, though included in all audit contracts, only apply to those organizations/funds (components) whose financial statements are included in a county that is audited by the Division of Local Government Audit. When the contract to audit accounts is executed, an individual with the Division of Local Government Audit will contact you by email, as noted in the contract. If you have further questions regarding your role in the group audit, please contact our office.

If the uniform contract includes more than one annual audit period, financial reporting shall conform with the guidelines in ***Section A, page 16***, Special Reporting Considerations, and Sections B through I of this manual, as applicable.

The contract to audit accounts establishes the date by which the audit report shall be submitted. While financial reports must typically be submitted no later than six (6) months following the fiscal year end, standards governing group audits may require a report to be submitted by an earlier date. Auditors conducting audits of funds and/or component units of a primary government may be requested to change the filing date (modified due date) either during the contracting process or after the contract is executed, in order to facilitate the group audit. Certain audits are contracted through Local Government Audit that are included in the State of Tennessee's audit report. Those audits

with fiscal years ending on June 30 are due by October 31 of that same year. Please refer to ***Appendix F*** for a list of these entities.

When considering approval of a contract to audit, the Comptroller will evaluate the circumstances related to previous audit reports that have not been submitted or were submitted after the due date or modified due date.

When a certified public accountant is considering conducting a special audit-related service, including agreed-upon procedures, that is not included in the audit contract approved by the Comptroller, the auditor must notify the Comptroller of the proposed work. A contract, explaining the nature and extent of the engagement, must be approved by the Comptroller's Office before any work is started.

The timing of submission of audit contracts can affect the timeliness of the audit. As a rule, audit contracts should be executed before the end of the fiscal year to be audited. However, contracting for the audit of internal school funds (i.e., activity funds, noncentralized cafeteria funds, and other internal school funds) and for additional audit procedures for centralized cafeteria systems in counties and special school districts is different. Because some of the agreed upon procedures must be conducted while school is still in session, all schools should contract by September 30 of the fiscal year to be audited (nine months **prior** to the end of the fiscal year).

Indemnification Clauses

The Office of the Attorney General, State of Tennessee, Opinion 93 – 01 states:

> A contract provision which requires that a local governmental entity indemnify or hold harmless another governmental entity or a private party beyond the liability imposed upon that entity by law is unenforceable because it appropriates public money and abrogates governmental immunity without the authorization of the General Assembly.

Based on this opinion, a local government does not have the power to enter into an indemnification clause. These clauses should be avoided in the audit contract.

Electronic Contracting and Reporting Requirements

Guidelines and requirements for CARS are included in the Help section of the main web page for the CARS application. Selected requirements related to the types of files that may be uploaded and electronic reports are included below; however, firms and their clients are responsible for complying with all CARS requirements.

Types of Files that Must be Uploaded if Available

File Content	File Type
Annual Audit Report/ Annual Financial Report	PDF
Management Letter	PDF

Separate Single Audit	PDF
AWWA Water Loss Excel Spreadsheet	Excel
Schedule of Cash Shortages and Other Thefts	PDF

Electronic Reports:

With the exception of certain agencies that file unaudited information or that file a courtesy report with our office (See guidance in Section K), electronic reports, related management letters, water loss Excel files, and letters to those charged with governance may only be filed by the audit firm.

When water loss Excel files are uploaded, language similar to the following may be included in the comments section of the submission form:

> This is the official financial report. We are also uploading the AWWA Excel file in compliance with regulatory requirements. Our audit firm takes no responsibility for the separate AWWA Excel file.

Electronic reports are posted to our web site upon receipt. When revised reports are submitted, the original file is replaced with the revised one.

The following guidelines should be followed for electronic reports.

1. The electronic report must be indistinguishable from any paper copy(s) issued.

2. Security settings must allow printing and commenting.

3. The scan quality should be sufficient to allow for clear viewing <u>and</u> printing of the document. Scan quality can be improved by modifying the settings on your scanner. The default settings on your scanner may need to be changed.

4. Scanned documents that include information which is highly dependent on color to convey information (such as graphs, pie charts, etc.) should be scanned in color. Failing to scan in color limits the usefulness of such information.

5. Pages should be in the proper order and should generally be oriented for reading purposes. When a financial statement cannot fit on a single page, the paging in the report should allow the entire financial statement to be viewed on facing pages. This may require blank pages to be inserted intentionally in a similar fashion to a paper report. The order of information in the report should comply with the general report outline in the *Audit Manual*.

6. Management letters that are not included in the table of contents of the audit report should be uploaded in a separate file from the audit report. Any information included in the audit report file will be posted to the Division of Local Government Audit's web site.

7. A separately issued management letter should be electronically submitted at the same time the electronic report is submitted. If the management letter has not been issued at the time the report is released, please notify us when submitting the financial report and then submit the management letter as soon as it is issued.

8. The opinion(s), internal control and compliance report(s), management letter, and any other auditor communication must be on letterhead.

9. All auditor communication should include a printed or graphic electronic signature.

10. Electronic files in portable document format (pdf) should include bookmarks at least as detailed as the table of contents

11. Renaming of the file – please note that we will rename the file names on the report and management letter to meet our internal standardized naming conventions.

12. Searchable documents are more useful than those that are scanned as pictures. Beginning with fiscal years ending December 2015 and later, searchable documents will be required for all audits. Auditors are encouraged to submit searchable documents prior to that date.

Submitting Revised Information

If you must resubmit any information, only include those documents that have changed. Unchanged documents should not be resubmitted.

Consideration of Fraud and Illegal Acts

The auditor is responsible for performing risk assessment procedures and developing an audit plan for each audit. No one audit plan will suffice for every audit and no group of audit steps is comprehensive enough to cover all circumstances. As noted below, the auditor has responsibilities for notifying the Comptroller if their audit procedures reveal any reasonable suspicion of fraud.

Item 7 of the Contract to Audit Accounts stipulates the following:

> Any reasonable suspicion of fraud, (regardless of materiality) or other unlawful acts including, but not limited to, theft, forgery, credit/debit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in *Tennessee Code Annotated*, § 39-16-402, involving public money, property, or services shall, upon discovery, be **promptly reported in writing** by the auditor to the Comptroller of the Treasury, State of Tennessee, who shall under all circumstances have the authority, at the discretion of the Comptroller, to directly investigate such matters. Notwithstanding anything herein to the contrary, the Comptroller of the Treasury, State of Tennessee, acknowledges that the auditor's responsibility hereunder is to

> design its audit to obtain reasonable, but not absolute, assurance of detecting fraud that would have a material effect on the financial statements, as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. If the circumstances disclosed by the audit call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the organization's management and those in charge of governance in writing of the need for such additional investigation and the additional compensation required therefor. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's management and those charged with governance and the auditor for such additional investigation.

Although the above requirements have been in place for many years, we have had different situations where audit firms have failed to meet their contractual obligation as referenced above.

The Tennessee State Board of Accountancy will be informed of all failures to meet the above referenced contractual obligations so that they may take whatever disciplinary action they deem appropriate.

Comptroller Referrals

The Comptroller's Office receives notifications from local governments, independent certified public accounting firms, private citizens, and other concerned parties regarding potential fraud, waste, and abuse of public funds. Local governments are required to report unlawful conduct to the Comptroller's Office in compliance with the Local Government Instances of Fraud Reporting Act and certified public accountants are contractually required to report all such matters to the Comptroller's Office.

Certain notifications received by the Comptroller's Office are referred to the contract auditor for consideration as part of their annual audit. The audit firm will receive a letter from our office summarizing the nature of the concerns addressed in the notification as well as the firm's responsibilities regarding the referral.

Cash Shortages and Other Thefts

Reporting Cash Shortages and Other Thefts

The reporting grid below illustrates the reporting requirements of the Comptroller's Office as compared to *Government Auditing Standards* when reporting cash shortages and other thefts. Please note that while the Yellow Book provides latitude in reporting instances of fraud that do not warrant the attention of those charged with governance, in light of public accountability for entities that are funded wholly or in part with public dollars, the Comptroller's Office requires that all instances of fraud, regardless of materiality, be communicated to those charged with governance in the report on internal control over financial reporting and on compliance. In addition, all instances of fraud should be included in a schedule of cash shortages and other thefts (described below).

Instances of Fraud (Includes Cash Shortages and Other Thefts)	**GAGAS Requirement**	**Supplemental Comptroller Requirements**
Instances of fraud that have a material effect on the audit (financial statements or other financial data significant to the audit objectives). (*GAS* 4.23, 4.25)	Communicate in the report on internal control over financial reporting and compliance. (*GAS* 4.23)	Also address all such matters in a schedule of cash shortages and other thefts – current and prior years.
Any other instances of fraud that warrant the attention of those charged with governance. (*GAS* 4.23)	Communicate in the report on internal control over financial reporting and compliance. (*GAS* 4.23)	Also address all such matters in a schedule of cash shortages and other thefts – current and prior years.
Instances of fraud that do not warrant the attention of those charged with governance. (*GAS* 4.26)	Auditor's determination of whether and how to communicate such instances to entity officials is a matter of professional judgment. (*GAS* 4.26)	Address all such matters, regardless of materiality or significance, in (1) the report on internal control over financial reporting and compliance as an other matter(s); and (2) a schedule of cash shortages and other thefts – current and prior years.

Schedule of Cash Shortages and Other Thefts – Current and Prior Years

All instances of cash shortages and other thefts, even those deemed to be immaterial, should be reported. The schedule should encompass all fraudulent matters identified during the audit. For example, issues discovered during normal audit procedures, issues addressed in investigative reports issued by the Comptroller or state or federal agency, and issues developed internally by the auditee or internal audit staff should be reported. Other sources may include reports by local law enforcement agencies or other organizations that the CPA becomes aware of during the normal course of his audit.

The information in this schedule will be included in an annual report published by the Division of Local Government Audit and made available to the public on our website.

Contents of Schedule

The schedule should include the information and follow the format presented in the example schedule below. The schedule shall include the status of **all** current and prior year cash shortages, other thefts and fraud, regardless of materiality.

All shortages, regardless of when they were initially reported, shall be tracked on the schedule until complete restitution has been collected or the governing body has taken and documented an official final action (write-off, insurance collection, etc.). Normally, write-offs would require action by those charged with governance.

The *explanations of cash shortages* section should detail the following information:

- A number that corresponds to the line item in the schedule;
- The fiscal year the cash shortage/other theft was first reported in the audit report;
- The amount of the shortage/other theft;
- The department (as applicable);
- A brief discussion of the nature of the shortage/other theft;
- Reference to the separate regulatory investigative report, as applicable; and
- The disposition at the end of the entity's fiscal year, including the status of resolution (e.g. restitution, insurance recovery, amounts written-off by the governing body, indictments, etc.). Any information regarding the disposition of the fraud subsequent to the entity's fiscal year end should also be included.

Filing of Schedule

This schedule will not be a part of the audit report, but should be submitted by the independent auditor in a pdf format through ***CARS*** at the same time the audited financial statements are submitted.

Reporting Findings from Regulatory Investigative Reports and Other Sources

Released Reports

If the Comptroller's Office or a state or federal regulatory body has publicly released a fraud investigative report during the contracted audit period or during the auditor's fieldwork for that audit, regardless of the period covered in the report:

- The report must be considered when conducting the audit and when reporting on internal control and compliance. Auditing standards require that investigative reports and other evidences of internal control weaknesses, cash shortages, and other thefts be considered in developing the current audit strategy.

- Relevant matters from the fraud investigative report should be addressed in the annual financial report and referenced to the investigative report, i.e., in the notes to the financial statements, the internal control and compliance report(s) and/or the management letter or letter to those charged with governance, as appropriate under current auditing standards. Those matters that are derived from a regulatory investigation and reiterated in the auditor's report on internal control and compliance should reference the fraud investigative report. Please note that auditing standards require the auditor to obtain and document sufficient audit evidence in the working papers to support the reiterated findings based on the auditor's work and not solely based on the work of

other auditors. Audit evidence can be obtained in a variety of ways including, but not limited to, inquiry, results of transaction testing, etc.

- Findings developed from internal investigations, reports by law enforcement agencies, or reports of other organizations should be considered and reported in a manner similar to regulatory investigative reports.

- Cash shortages and other thefts identified in a regulatory investigative report should be reported in accordance with the supplemental Comptroller requirements as outlined in the reporting grid above.

- For regulatory investigative reports issued during the auditor's fieldwork that are outside the scope of the audit, the following guidance should be followed when reporting fraud:

    a. If the fraud occurred prior to the current audit period and the fraud was not addressed in a prior audit period, the auditor should report the fraud in the report on internal control and compliance of the current period.

    b. If the fraud occurred subsequent to the current audit period, the fraud should be reported in the internal control and compliance report of that subsequent period. The notes to the financial statements of the current audit period should disclose the fraud as a subsequent event if it meets applicable disclosure criteria.

<u>On-going Investigations</u>

In situations where there is an on-going fraud investigation, the auditor should follow the standards for determining the reporting and disclosure requirements in the annual financial report and auditor's reports. If the release of the annual financial report will be delayed due to an on-going fraud investigation, the auditor should contact the Division of Local Government Audit.

Town in Tennessee
Example Schedule of Cash Shortages and Other Thefts – Current and Prior Years
For the Period July 1, 2014 through June 30, 2015

	Fiscal Year First Reported	Department (This column may not always be applicable depending upon the type of local government.)	Original Audit Finding Number/ Reference	Original Amount of Shortage	Beginning/ Carry-Forward Balance	Current Year Shortage	Current Year Reductions (Collections and other Decreases)	End of Year Balance
1	2015	General Government	2015-002	$ 14,500	$ -0-	$ 14,500	$ -0-	$ 14,500
2	2015	Highway and Streets	2015-007	200	-0-	200	200	-0-
3	2014	Board of Education	2014-005	15,000	14,000	-0-	1,000	13,000
4	2012	Water and Sewer	2012-012	500	500	-0-	500	-0-
5	2011	Police Department	2011-002	10,000	10,000	-0-	10,000	-0-

Explanations of Cash Shortages

1. General Government
The audit for the 2014-15 year reported a cash shortage of $14,500. An investigative report issued by the Tennessee Comptroller of the Treasury in February of 2015 revealed that from May 2014 through October 2014, the bookkeeper fraudulently issued checks totaling $14,500 for personal use.

Disposition: At June 30, 2015, no restitution payments had been made. In July of 2015 the bookkeeper was found guilty of theft of $10,000 or more, sentenced, and ordered to pay restitution totaling $14,500 to the municipality.

2. Highways and Streets
The audit for the 2014-15 year reported a cash shortage of $200 in the street department. An employee claimed hotel and per diem meal reimbursements for an extra day of weekend travel that was not for an authorized municipal purpose.

Disposition: As of June 30, 2015, complete restitution had been made. The employee was required to repay the amount to the municipality and was dismissed from employment.

3. Board of Education
The audit for the 2013-14 year reported a cash shortage of $15,000 at the Board of Education. This shortage resulted from the misappropriation of petty cash funds by a municipal employee. The employee admitted to taking the petty cash funds and was subsequently terminated by the Board.

Disposition: The former employee is making annual restitution payments of $1,000 until the amount is paid in full.

4. Water and Sewer Department
The audit for the 20011-12 year reported a theft of $500 in the water and sewer department. The department's cell phone bills for January and February of 2012 reflected $500 in charges for text messages for one employee.

Disposition: The employee confessed that the charges were for personal use and agreed to reimburse the town for the charges. The employee subsequently left employment with the town and did not repay the amount owed. An insurance payment related to the theft of $500 was received during the current year.

5. Police Department
The audit for the 2010-11 year reported a theft of $10,000 in the police department. A special investigation was conducted by the Tennessee Comptroller's Office and is addressed in their report released in May of 2011. The theft was a result of confiscated drug funds being stolen by an employee of the department.

Disposition: The employee was terminated as a result of the theft. The town does not intend to seek restitution and recovered $8,000 of the theft from insurance proceeds during the current year. The governing body has written-off the remaining $2,000 as uncollectible. The theft has been reported to the local district attorney and is awaiting trial..

Confirmations from State

Certain state confirmations related to counties, municipalities, and school food service funds are distributed by the Division of Local Government Audit of the Comptroller's Office on the web. For additional information regarding on-line confirmations, please see the Comptroller's web site (***ON-LINE CONFIRMATIONS - LOCAL GOVERNMENT AUDIT***). If you need additional information, the division's mailing address and FAX number are:

Comptroller of the Treasury
Division of Local Government Audit
Suite 1500
James K. Polk State Office Building
Nashville, TN 37243-1402
FAX (615) 741-6216

General Report Outline

All financial reports submitted to the Comptroller of the Treasury must comply with the following General Report Outline. Unique requirements related to each entity type (county, municipality, utility district, etc.) can be located in Sections B through H, as applicable.

The financial section for a component unit should conform with the General Report Outline and include the minimum content of a component unit financial report as prescribed by GASB pronouncements, and should encompass all funds of the audited entity.

All audit reports shall include the following information, as applicable, and should conform to the following outline.

I. Introductory Section

Table of contents, letter(s) of transmittal, roster of publicly elected officials, roster of management officials (in the annual financial report issued by a municipality, this would include the employee with financial oversight responsibility designated to meet the requirements of *Tennessee Code Annotated*, Section 6-56-401 et. al), roster of board members, and any other material deemed appropriate by management.

II. Financial Section

A. Auditor's Report on the Financial Statements, which shall state that the audit was performed in accordance with *Government Auditing Standards* (generally accepted government auditing standards). Please refer to the AICPA Audit and Accounting Guide, *State and Local Governments,* for reporting guidance.

The Comptroller of the Treasury shall require auditors of local governments to express an opinion on each of the opinion units which collectively comprise the basic financial statements required by the GASB Statement 34 financial reporting model. However, a local government at its option may engage the auditor to also express an opinion on the combining and individual fund financial statements that are presented as supplementary information accompanying the basic financial statements.

B. Management's Discussion and Analysis

C. Financial statements of the organization (refer to Sections B through H for additional information for a particular entity), including Notes to the Financial Statements.

D. Required Supplementary Information (GASB or FASB)

E. Supplemental information (refer to Sections B through H for additional information for a particular entity). The auditor should include a report on the supplemental information. This report may be separate or a part of the Auditor's Report.

F. Schedule of Expenditures of Federal Awards and State Financial Assistance (could be included in the Single Audit section of the report).

This schedule must identify the various programs under which the organization received government funds (federal and state assistance). The minimum amount of information is set forth in OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. An example is included in ***Appendix A***.

- The title may change if no federal funds are involved or if only federal funds are involved.
- This schedule is required regardless of the amount of state and/or federal funding received.
- This schedule (and the format thereof) is required even if all grants were received directly from the federal government.

III. Statistical Tables (as required by GAAP, if a CAFR is issued)

IV. Internal Control and Compliance Section/ Single Audit Section (as required by OMB and *GAS*)

A. All audits performed for the Comptroller's Office shall be conducted in accordance with generally accepted government auditing standards. Audits that are subject to the provisions of OMB Circular A-133 or the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards shall include the additional reporting requirements outlined in the OMB guidance.

B. Audits conducted in accordance with *Government Auditing Standards* that are not subject to federal OMB audit and reporting requirements should include the internal control and compliance report as part of the audited financial report.

C. Audits conducted pursuant to the requirements of OMB Circular A-133 or the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* have the following options:

a. Include the internal control and compliance reports required by *Government Auditing Standards* and federal OMB requirements as part of the audited financial report.

b. Submit the internal control and compliance reports required by *Government Auditing Standards* and federal OMB requirements as part of a separate single audit report.

c. If a separate single audit report is issued, it should be submitted at the same time the audited financial report is uploaded in the Comptroller's online Contract and Report System (CARS).

D. Schedule of Prior Year Findings and Questioned Costs: Refer to Appendix A for additional requirements applicable to all audits contracted through the Comptroller's Office.

E. All findings addressed in the reports should include management's responses.

F. Auditors are reminded of the following additional reporting and communication requirements prescribed by the Comptroller's Office:

1. Separate written communications with management or those charged with governance that address audit findings (including those deemed to be inconsequential or only matters of efficiency, effectiveness and best practices) must be submitted to the Comptroller.

2. Separate written communications with management or those charged with governance must not contain any reportable instance of noncompliance or other matters or significant deficiencies in internal control that were not disclosed in the findings found in the published audit report.

Special Reporting Considerations

- Financial Reports Covering More Than One Fiscal Year

  Financial reports covering more than one fiscal year would generally include the following information. However, the Comptroller's office should be contacted any time an audit covers more than one fiscal year to determine what type of reporting is acceptable under the circumstances.

  --A Statement of Financial Position for the end of the period being audited;
  --Operating Statements for each fiscal year being audited;
  --Cash Flow Statements for each fiscal year being audited.

- Regulatory Reporting to Local Government Audit

  - Regulatory reporting for entities subject to audit is covered in Sections B through I and Appendix D
  - Regulatory reporting for entities not currently being audited or not subject to audit is covered in Section K

Current Developments Affecting Reporting and Other Matters

See ***Appendix B*** for current developments affecting reporting and other matters that are relevant to audits conducted on behalf of the Comptroller's Office.

SECTION B

REPORTING AND AUDITING REQUIREMENTS TENNESSEE COUNTIES

(INCLUDING RELATED COMPONENT UNITS)

Background

County government in Tennessee may be structured in several ways. The *Constitution of the State of Tennessee* states that the General Assembly may provide alternate forms of county government, including the right to charter. The *Constitution* also allows a county to organize under a consolidated form of government.

Numerous state statutes and private acts, as well as rules and regulations, govern a county's financial operations. (***GO TO SELECTED LAWS – APPENDIX D***) Additionally, the county legislative body may enact resolutions establishing policy or procedure, authorize various activities, and transact other business such as adopting budgets, filling vacancies, creating boards or authorities, making appointments to boards or authorities, and authorizing the issuance of bonds and notes.

In each county, there are a minimum of 11 county offices:

1. County Trustee
2. County Mayor
3. Department of Education
4. Department of Highways
5. County Clerk
6. Circuit Court Clerk
7. General Sessions Court Clerk
8. Chancery Court Clerk and Master
9. Register
10. Sheriff
11. Assessor of Property

The county mayor serves as the chief fiscal officer of a county, although the mayor has little control over the assessment of property, the collection of property tax, the salaries and disbursements of other elected county officials, and some county-owned institutions. In most counties, the county mayor is responsible for administering general county operations. The education and highway departments make up the other primary areas of a county government's fiscal operations. These three offices or departments are known as a county's "program agencies." The county trustee, as the treasurer for the county, collects taxes and other revenues

and maintains the fund account balances from which disbursements of the county's offices or departments are paid.

Financial Reporting

General:

Financial statements should be prepared in conformity with accounting principles generally accepted in the United States of America. The basic financial statements should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards.* Under current GASB standards, the board of education is a component unit of the county and should be reported discretely in the county's comprehensive annual financial report. Also, all counties, except Davidson, Hamilton, Knox, and Shelby, must adopt the "County Uniform Chart of Accounts," (***COUNTY CHART OF ACCOUNTS***).

The financial transactions of county constitutional offices, such as trustees, county clerks, clerks of courts, registers, clerk and masters, and sheriffs, should be consolidated with the financial statements of the county in the annual financial report or comprehensive annual financial report (CAFR) in order to conform with accounting principles generally accepted in the United States of America. There is no requirement for financial statements of the constitutional offices to be issued separately from the county's report. A county may present separate financial reports on the constitutional offices, if so desired.

Additional Requirements of the Comptroller's Office:

County officials are encouraged to issue a financial report that conforms to the requirements of the Governmental Accounting Standards Board related to a comprehensive annual financial report (CAFR). However, audit reports for counties shall, at a minimum, conform to the general report outline in ***Section A*** of this manual and include the following supplementary information.

GASB permits budgetary information to be included as Required Supplementary Information or as basic financial statements for the general fund and each major special revenue fund for which a legally adopted annual budget is required. However, this office requires the detailed legally adopted budgetary information for these funds to be included in the basic financial statements. The auditor's opinion should cover this information. Budgetary information for other major funds would be included in supplemental information.

Individual fund revenues should be classified by individual source (property tax, TVA-in lieu of tax, beer tax, etc.), and expenditures should be classified by function, organizational unit, and object. At a minimum, budgetary schedules should present detail consistent with the entity's legally adopted budget.

1. Supplementary Information:

   a. Combining statements for nonmajor governmental and proprietary funds.

   b. Combining statements for internal service funds.

   c. Combining statements for fiduciary funds.

   d. Budgetary schedules for all nonmajor governmental funds and other major governmental funds with annual appropriated budgets.

   e. Fund information for discretely presented component units that do not issue separate financial statements.

   f. Schedules.

      (1) Schedule of Expenditures of Federal Awards and State Financial Assistance (This schedule is required if the entity expended subrecipient funds, regardless of the amount.) Assistance in the form of loans must separately identify both the federal and state portions.

      (2) The following schedules are required, if applicable, whether the county issues a CAFR or not. Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments. The following are required schedules:

         (a) Schedule of Investments.

         (b) Schedule of Changes in Long-Term Notes, Capital Leases, Bonds Payable and other Loans Payable.

         (c) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year–All Funds.

         (d) Schedule of Transfers.

         (e) Schedule of Salaries and Official Bonds of Principal Officials.

         (f) Schedule of Utility Rate Structure, Number of Customers.

         (g) Schedule of Unaccounted for Water (See Example

Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

County Schools–Centralized Cafeteria Funds

Centralized food service funds of a special school district or county school system must be reported in one of the board of education's funds in the county's report.

Office of Assessor of Property

The audit of the office of assessor of property is not a financial audit. The objective of the audit is to determine if the procedures, used by assessors for performing local assessment functions, are in compliance with laws and regulations. The Division of Property Assessments monitors assessors of property to determine compliance with certain state statutes and regulations. This monitoring should be relied on for reporting noncompliance issues.

The audit of the office of assessor of property does not affect the auditor's report on the county's financial statements or the related reports on compliance and internal control structure. However, the auditor must report the results of the monitoring of the office of assessor of property in the internal control and compliance section of the county's audit report or in a separate findings and recommendations section of the county's audit report. Any questions regarding the audit of the office of assessor of property should be directed to the Division of Local Government Audit or the Division of **Property Assessments**.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 1, is included to assist counties in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all *Tennessee Code Annotated* compliance requirements.

- Counties that have formed joint venture entities with one or more governments should also refer to Section D, Reporting and Auditing Requirements - Special Purpose Governments, for applicable regulatory reporting requirements for joint venture entities.

SECTION C

REPORTING AND AUDITING REQUIREMENTS TENNESSEE MUNICIPALITIES
(INCLUDING RELATED COMPONENT UNITS)

Background

Municipalities in Tennessee may be chartered under the Private Acts of the State of Tennessee or under one of the uniform charters set forth in *Tennessee Code Annotated.* The three basic forms of municipal government found in Tennessee are mayor and board of aldermen, city manager and board of commissioners, and modified city manager and council. (***GO TO SELECTED LAWS – APPENDIX D***)

Section 9-2-102, *Tennessee Code Annotated*, requires the Comptroller of the Treasury to prescribe a uniform accounting system for use by all municipal officials. The statute states, "It is the duty of all officials to adopt and use the system and the character of books, reports, and records designated." An accounting system has been defined as "the methods and records established to identify, assemble, analyze, classify, record and report a government's transactions and to maintain accountability for the related assets and liabilities."

In order to fulfill this responsibility to provide a comprehensive uniform accounting system, the Comptroller of the Treasury issued the *Internal Control and Compliance Manual for Tennessee Municipalities*. This manual sets forth guidance for establishing internal control and identifies compliance issues related to state laws and regulations affecting municipalities.

The comptroller's office is currently developing an internal control manual that will apply to all local governments and quasi-governmental organizations. The compliance, accounting and reporting portions of the *Internal Control and Compliance Manual for Tennessee Municipalities* that are being retained have been moved to this manual. During the transition, the compliance, accounting and reporting matters in this manual supersede all such guidance in the *Internal Control and Compliance Manual for Tennessee Municipalities.* The internal control portions in that manual are still in force.

Accounting, Books and Records

The Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, is to be used as guidance for accounting and reporting where it does not conflict with:

(1) guidance in Manuals issued by the Comptroller's Office;
(2) recently issued GASB standards or any requirements of other standards setting bodies that have not been incorporated into the Blue book

The Comptroller's Office, in coordination with municipalities and other organizations, is developing a standardized chart of accounts for municipalities. The chart of accounts in the Blue Book should not be used.

Municipal officials should ensure that:

1. a complete, self-balancing group of accounts is established and maintained for each fund. For adequate accounting, municipalities must maintain a general ledger, cash receipts journal, and cash disbursements journal for each fund, as well as subsidiary account records necessary to comply with legal provisions and generally accepted accounting principles and to present the financial position and changes in financial position.

   The accounting records maintained by the municipality should be consistent with the financial reporting of the municipality. That is, if the municipality reports a fund, the accounting records must include a separate fund in which activity is posted throughout the year. Likewise, if the accounting records include a fund in which activity is posted throughout the year, the financial report should reflect that fund. There is currently one exception in this area related to the solid waste fund. Please refer to Title 4, Chapter 3, for additional guidance.

2. subsidiary ledgers, such as the tax roll and the utility accounts receivable listings, are used to maintain individual account transaction details to support the total in the general ledger control (summary) account.

3. adequate supporting documentation, such as prenumbered receipts, billing stubs, invoices, etc., is required to document all transactions.

4. complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible. The minutes should include the following:

   a. copies of all ordinances and resolutions adopted (including utility rates and cut-off policy, tax rates, permit fees, etc.)

   b. copies of the budget and any supplemental appropriations

c. schedules of personnel appointments and salary rates and changes (In larger municipalities where such information may not be practicably included in the minutes, the minutes should include documentation of: (1) all appointments and wage rates that must be set by the board; (2) across the board wage increases; and, (3) the amount of funds allocated to departments to be allocated to employees by the department heads or other designated individual(s). Adequate policies governing authorization of pay increases should be developed and maintained by the municipality. Wage and salary rates increases delegated by the board should be adequately documented in the personnel records.)

d. copies of bond and revenue anticipation resolutions

e. authorizations of loans and transfers between funds

f. notices of public hearings and resulting decisions

g. copies of federal and state grant applications (whether a final award was received or not)

h. summaries of action taken on competitive bids

i. copies of contracts entered into by officials. Municipal officials should, in most circumstances, obtain a written contract for agreements with other entities or individuals for services received or provided, regardless of whether payment is involved, including the following:

   (1) contract labor and consultant agreements, day labor, and similar work

   (2) leases

   (3) rentals

   (4) management agreements

   (5) mutual aid agreements

   (6) cable or other franchise agreements

j. purchasing policy

k. expense reimbursement policy

l. other records necessary to support revenues, cash receipts, expenditures, expenses, cash disbursements, billings, water usage, etc.

5. Telecommunications activities are accounted for properly, including:

- The telecommunications division must maintain its own accounting and record-keeping system;

- Any loans from the municipal electric system must be made at not less than the highest interest rate then earned by the municipal electric system on invested electric plant funds, to acquire, construct, and provide working capital for the system, plant, and equipment;

- The municipal electric system shall fully allocate any costs associated with telecommunication services;

- The municipal electric system shall charge the same fees as it charges any other franchise holder providing the same service;

- The telecommunications division must present sufficient detail of all financial activity in supplemental schedules or in the notes to the financial statements to demonstrate compliance with *Tennessee Code Annotated* 7-52-401 et al;

6. Cable Television, Internet and Related Services (Cable) are accounted for properly, including:

   - The cable division must maintain its own accounting and record-keeping system.

   - Any loans from the municipal electric system must be made at not less than the highest interest rate then earned by the municipal electric system on invested electric plant funds, to acquire, construct, and provide working capital for the system, plant, and equipment.

   - The municipal electric system shall fully allocate any costs associated with cable services.

   - The municipal electric system shall charge the same fees as it charges any other franchise holder providing the same service.

   - The cable division must present sufficient detail of all financial activity in supplemental schedules or in the notes to the financial statements to demonstrate compliance with *Tennessee Code Annotated* 7-52-601 et al.

7. A municipality's activities related to solid waste may be recorded in the following funds and related accounts. For activities not meeting the requirements to be accounted for in an enterprise or special revenue fund, detailed expenditures should be recorded in the general fund.

Fund Type	Fund Account Number	Account Name
Enterprise	421	Solid Waste Disposal
Enterprise	422	Solid Waste Collection
Special Revenue	131	Solid Waste Collection

As a result of legislation passed in 1991, any local government that operates a solid waste disposal site is required to record the operations in an enterprise fund. Fund account no. 421 is recommended for these activities. For those municipalities that provide collection services as well as a solid waste disposal site, this legislation provides the option of using an enterprise fund (account no. 422) or a special revenue fund (account no. 131) to account for the collection service. However, the operation of a solid waste disposal site must be accounted for in an enterprise fund (account no. 421). Municipalities that provide only collection service to their residents are required to account for this service in a separate fund. In almost all instances these activities will be accounted for in a special revenue fund (account no. 131). The fund account numbers were developed by the Municipal Technical Advisory Service in conjunction with the Office of the Comptroller of the Treasury. They have been designed to be incorporated into the accounting system developed and used by the Local Government Data Processing Corporation. Municipalities that do not use the accounting system developed by the Local Government Data Processing Corporation should endeavor to maintain reasonably comparable account names.

Object expenditure codes to be used in solid waste disposal site accounting include the following:

297	Landfill Facilities Fee
480	Landfill Materials
481	Daily Cover Material
482	Drainage Materials
483	Geotextile Materials
484	Synthetic Membrane
485	Liner Material
486	Wire or Fencing
487	Testing Supplies
488	Natural Materials
489	Other Landfill Material
560	State Fees and Charges
561	Application Fee
562	Tipping Fee (Surcharge)
563	Other Landfill Fees

564	Annual Maintenance Fee
565	Permit Fee
566	Sanitary Survey Fee
567	Plans Review Fee
568	Annual Emission Fee
569	Other State Fees and Charges
911	Site Acquisition
912	Site Development

8. Section 10-7-702, *Tennessee Code Annotated*, provides that the Municipal Technical Advisory Service (MTAS), "…is authorized to compile and print, in cooperation with the state library and archives, records retention manuals which shall be used as guides by municipal officials in establishing retention schedules for all records created by municipal governments in the state." The following schedule is a summary of the unique retention provisions recommended by the Comptroller. These unique provisions as well as other detailed provisions are addressed in the MTAS guide reviewed in 2009, *Records Management for Municipal Governments: A Reference Guide for City Officials and Municipal Public Records Custodians*. This guide can be accessed at
   https://resource.ips.tennessee.edu/printpdf/book/export/html/458.

   MTAS has also issued *New Amendments to the Federal Rules of Civil Procedure and Their Effects Upon Records Retention*, that can be accessed at https://resource.ips.tennessee.edu/reference/amendments-federal-rules-civil-procedure.

Record	Retention Period	Legal Authority/Rationale
Accounts Payable.	Retain 10 years.	Requirement of the Comptroller.
Accounts Receivable.	Retain 10 years.	Requirement of the Comptroller.
Annual Reports to City Officials. Submitted by city departments, boards, or agencies.	Permanent record.	Keep for historical purposes.

Record	Retention Period	Legal Authority/Rationale
Audit Reports. All audit reports relative to city finances. Audit reports show name of office, name of fund or account, account of all receipts and disbursements, date of audit, and signature of auditor.	Permanent record.	Requirement of the Comptroller. Record has high historical value. NOTE: T.C.A. § 6-56-104 requires the city to place a copy of the audit in the main branch of the public library.
Bonded Indebtedness, Record of. Register book shows bond issue, date, and amount set up by year; as bonds and coupons are returned, these are shown in the book. Other records include the trust indenture, loan agreements, bond counsel opinion, documentation of expenditure of bond proceeds, copies of management contracts and research agreements, documentation of all sources of payment or security for the bonds, and documentation of investment of bond proceeds. Other records may also include documentation specific to any single and multi-family housing bonds and small issue industrial development bonds.	Retain 6 years.	Based on procedures established in T.C.A. § 9-21-123. T.C.A. § 28-3-113.
Canceled Checks. Canceled checks showing date check issued, name of bank on which drawn, check number, to whom payable, purpose of payment, amount of check, and date canceled.	Retain 7 years.	Based on statute of limitations for legal action for breach of contract plus one year. T.C.A. § 28-3-109.
Cash Journals. Record of all	Permanent record.	Requirement of the

Record	Retention Period	Legal Authority/Rationale
receipts and disbursements as distributed to various city accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.		Comptroller. Comptroller's office considers this record important for demonstrating patterns in investigations of misappropriation of funds. Prior to the advent of general budgetary practices, the *Recorder's Cash Journal* was the best record for tracking the total revenue stream of the city and has historical value. For this reason, older records should be kept permanently.
Daily Collection Report. Summarizes all cash/check collections by source and fund and indicates the deposit amount, amount retained for change and amount short or over.	Retain at least 3 years from the date the audit was filed with the Comptroller's office	Keep for audit, review, and investigative purposes.
Cash Reconciliation Report. Shows balances at beginning of month, outstanding checks, cash balances, checks issued during month, checks paid, cash and outstanding checks at end of the month.	Retain at least 3 years from the date the audit was filed with the Comptroller's office	Keep for audit, review, and investigative purposes.
Check Books. Books containing stubs of checks issued by the Recorder showing check number, date issued, name of payee, amount, and purpose of payment.	Retain 7 years after date of last check.	Based on statute of limitations for legal actions for breach of contract plus one year. T.C.A. § 28-3-109.

Record	Retention Period	Legal Authority/Rationale
Check Stubs. From all city accounts and accounts of all its departments.	Retain 7 years.	Based on statute of limitations for legal actions for breach of contract plus one year. T.C.A. § 28-3-109.
Development and Proposal Files. Reports, planning memos, correspondence, studies, and similar records created for and used in the development of grant proposals submitted to state or federal agencies and contracts relating to the grant.	Retain all unsuccessful applications for 5 years. Retain all records regarding grants that are received for life of grant plus 7 years.	Keep unsuccessful proposals in case of appeal or for administrative use in re-application. Keep records of grants received based on statute of limitations for contract actions. T.C.A. § 28-3-109.
Financial Reports to City Legislative Body. (1) General; (2) Final—Report gives information on different accounts, balances on last report, receipts, disbursements, commissions, transfers, balances on this report, totals, bank balances of city accounts in different banks, and classification of receipts (sources received from, *e.g.*, state, local, etc.). Reports of street department chief administrative officer and other officials when required by law.	Permanent record.	These reports should be recorded in the minutes of the city legislative body. Requirement of the Comptroller.
General Ledger Accounts. Record of all receipts and disbursements for the various city accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.	Permanent record.	Requirement of the Comptroller.
Court Case Ledgers.	Permanent	Requirement of the

Record	Retention Period	Legal Authority/Rationale
Records and materials regarding case funds received and distributed.	Record.	Comptroller.
Moveable, High-Risk, Sensitive Property. Inventory records of non-capitalized property items, such as cameras, computers, printers, scanners, etc.	Retain 5 years.	Keep for audit purposes and to ensure that such items are retained for use in the municipality and are not lost, misplaced or stolen.
Investment Ledgers. Surplus cash investments, rate of interest, date, and amount collected.	Retain 10 years.	Keep for audit purposes and to address arbitrage concerns.

9. The Tennessee Water and Wastewater Financing Board has adopted the following guidelines for evaluating the useful lives of assets of water and wastewater systems. The useful lives of assets should not exceed the appropriate guidelines listed below. Updated guidelines are under review and will be posted on the Comptroller's website when they are adopted.

Asset Account	Years
Office Furniture and Fixtures	10
Office Building	40
Equipment and Tools	10
Transportation Equipment	5
Pumps and Treatment Equipment	10
Well/Dam	Engineer's Estimate
Plant Buildings	40
Lines and Storage	40-50
Sewer System	40-50

Financial Reporting

General:

The basic financial statements of all municipalities should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

If a separate financial report is issued for a fund of the municipality, all requirements of this section applicable to that fund financial report should be included.

Municipal Schools–Centralized Cafeteria Funds

> A municipal school system's centralized cafeteria funds are reported in one of the board of education's funds in the municipality's annual financial report.

Municipal Schools – Board of Education

> Financial reports issued for a municipal board of education must include all activities, funds, debt, and capital assets that are used in operating the board of education. Municipalities with local school systems will need to consider accounting practices that might not be conducive to the separate reporting for the board of education. Capital projects for schools will need to be accounted for in a separate fund from other municipal capital projects. Debt issued for multiple purposes which include the board of education will present unique accounting requirements.
>
> A separate financial report for a municipal board of education must comply with the basic reporting requirements for a municipality as well as the additional requirements of the comptroller that are applicable to a municipality.
>
> If the board of education is a component unit, the board's financial statements would be substantially the same format as the municipality's financial statements. The auditing and reporting requirements for component units should be followed.
>
> If the board of education is a department of the municipality, department-wide financial statements would be prepared for the board of education, as described in the AICPA Audit and Accounting Guide: *State and Local Governments*, March 1, 2014, Section 14.91.

Additional Requirements of the Comptroller's Office:

Municipal officials are encouraged to issue a financial report that conforms to the requirements of the Governmental Accounting Standards Board (GASB) related to a comprehensive annual financial report (CAFR). However, audit reports for municipalities shall, at a minimum, conform to the general report outline in ***Section A*** of this manual and include the following supplemental information. The schedules required are significantly less than what would be

required in a CAFR. Additional requirements and/or clarifications regarding the financial statements and required schedules are identified below.

All supplemental information included in separately issued fund financial statements should be included in the financial report for the municipality as a whole. For component units that issue separate financial statements, the supplemental information from the separate report is generally not required to be included in the municipality's financial report, although it is permissible. If a separate single audit is not conducted for a component unit, then the information in the Schedule of Expenditures of Federal Awards and State Financial Assistance for that separate audit should be included in the municipality's schedule. A note should be added to the schedule of the component unit to indicate that the single audit was conducted for the reporting entity, not for the separate component unit.

1. GASB permits budgetary information to be included as Required Supplementary Information or as basic financial statements for the general fund and each major special revenue fund for which a legally adopted annual budget is required. However, this office requires the detailed legally adopted budgetary information for these funds to be included in the basic financial statements. The auditor's opinion should cover this information. Budgetary information for other major funds would be included in supplemental information (see item 4.d. below).

2. Additionally, an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is required for the combining, individual fund, and budgetary schedules as well as the utility detail required by items 4.f.(3), (4) and (5) below and the Schedule of Expenditures of Federal Awards and State Financial Assistance.

3. Additional Detail Required for Revenues and Expenditures:

   In addition to revenues being presented by source (e.g., taxes, intergovernmental revenues, licenses and permits, and fines, etc.) as required by generally accepted accounting principles, taxes and intergovernmental revenues should be further detailed by specific source (e.g., property tax, TVA-in lieu of tax, beer tax, gasoline and motor fuel tax, etc.).

   In addition to being classified by function (or program) and character (e.g., current, capital outlay, debt service and intergovernmental expenditures) as required by generally accepted accounting principles, expenditures should be further detailed by object classes.

   The additional detail of revenues by specific source and expenditures by object classes should be either in the financial and/or budgetary statements or schedules of the major and nonmajor funds or, in

additional supplemental schedules. Excessively detailed object classifications for expenditures should be avoided.

4. Supplemental Information:
(Please refer to the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2200.208 - 209, for additional details on all combining statements.)

   a. Combining statements for nonmajor governmental and proprietary funds.

   b. Combining statements for internal service funds.

   c. Combining statements for fiduciary funds (trust funds and agency funds). Please note that for agency funds, a combining statement of changes in assets and liabilities is required.

   d. Individual budgetary schedules for all governmental funds with annual appropriated budgets that were not included as basic financial statements. (The schedule should include three (3) columns, one for the original budgetary amounts, one for the final budgetary amounts, and one for actual expenditures. An additional column is recommended, though not required, to display variances.)

   e. Fund information for:
      - discretely presented nonmajor component units; and
      - major component units for which the note disclosure option is elected, unless a separate audit report is issued.

   f. Schedules.

      (1) A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

      (2) The following schedules are required, if applicable, whether the municipality issues a CAFR or not (except as otherwise noted). Certain schedules may exceed GASB's minimum requirements; however, the information provided is used by other state departments.

(a) Schedule of Transfers (may be omitted if transfer disclosure in the notes to the financial statements is adequate, i.e., transfers disclosed by individual fund for all major and nonmajor funds).

(b) Schedule of Interfund Receivables and Payables (may be omitted if the netting option permitted by the AICPA Audit and Accounting Guide: *State and Local Governments*, 9.12, March 1, 2014 Edition, is not utilized or if interfund activity disclosure in the notes to the financial statements is adequate, i.e., due to/from amounts are disclosed by individual fund for all major and nonmajor funds).

(b) Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt by individual issue and by Fiscal Year–All Funds). Schedules should also be included for all interfund and intrafund (e.g., between divisions within a utility fund) receivables and payables (e.g., telecommunications, cable, water/sewer, gas, general fund, etc.) Note: Long-term interfund receivables and payables (i.e., interfund loans) must be approved by the Comptroller of the Treasury, Office of State and Local Finance.

(c) Uncollected Delinquent Taxes Filed in accordance with applicable laws.

(d) Utility Rate Structure and Number of Customers – all funds and divisions.

(e) Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

(f) Schedule of Changes in Property Taxes Receivable – By Levy Year (which should tie to the financial statements and may be omitted if a

CAFR is issued) (See Example Schedule in ***Appendix A***).

(g) Property Tax Rates and Assessments – Last 10 Years.

(h) Additional schedule(s), if necessary, of taxes and intergovernmental revenue by specific source and expenditures by object.

(i) Additional schedule(s), if necessary, of expenditures by object class. Schedules are required to demonstrate compliance if sufficient detail is not included in the basic financial statements or fund financial statements/schedules.

(3) If the municipality provides several utility services (e.g. gas, electric, water, sewer or a combined water and sewer operation, depending on the policies of the municipality, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net assets; revenues, expenses, and changes in net assets; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

(4) If a municipality is providing cable, internet, and/or related services, additional schedules must be included that provide sufficient detail to demonstrate compliance with *Tennessee Code Annotated* (*TCA*) 7-52-601 et al. unless sufficient detail is presented in the basic financial statements.
[e.g., detailed revenues/expenses including allocated expenses (*TCA* 7-52-603); details of all loans and loan terms (*TCA* 7-52-607); tax equivalent payments (*TCA* 7-52-606)]

(5) If a municipality is providing telecommunication services, additional schedules must be included that provide sufficient detail to demonstrate compliance with *Tennessee Code Annotated* 7-52-401 et al. unless

sufficient detail is presented in the basic financial statements.
[e.g., detailed revenues/expenses including allocated expenses (*TCA* 7-52-402(1)); details of internal loans and loan terms (*TCA* 7-52-402(2)); tax equivalent payments (*TCA* 7-52-404)]

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 4, is included to assist municipalities in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all *Tennessee Code Annotated* compliance requirements.

- Municipalities that have formed joint venture entities with one or more governments should also refer to Section D, Reporting and Auditing Requirements - Special Purpose Governments, for applicable regulatory reporting requirements for joint venture entities.

SECTION D

REPORTING AND AUDITING REQUIREMENTS SPECIAL PURPOSE GOVERNMENTS (INCLUDING RELATED COMPONENT UNITS)

Emergency Communications Districts

Background

Emergency communications districts (ECDs) are created under the authority of Title 7, Chapter 86, *Tennessee Code Annotated* (*TCA*). The purpose of an ECD is to provide an emergency communications service whereby a public safety answering point may receive telephone calls dialed to the 911 telephone number. A voter referendum is required for the creation of an ECD. Section 7-86-106, *TCA,* provides that ECDs are municipalities or public corporations. The powers are vested in a board of directors. Funds to operate ECDs are largely generated from a monthly telephone charge levied on all telephone customers in a district.

Financial Reporting

General

Emergency communications districts should be accounted for as enterprise funds on the accrual basis of accounting. Accounting and financial reporting requirements for emergency communications districts are included in the ***Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts,*** published by the Comptroller of the Treasury. This manual includes links to web sites which provide additional compliance, example financial statements, and other reporting requirements.

Typically, emergency communications districts are component units of county governments. There are a few that are component units of municipal governments or are joint ventures.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist emergency communications districts in identifying compliance matters from state statutes that are relevant to their operations. It can also be used

by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all *Tennessee Code Annotated* compliance requirements.

Housing Authorities

Background

Housing authorities in Tennessee are authorized to be created under Title 13, Section 20, *Tennessee Code Annotated*, and are bodies corporate and politic. Housing authorities are created to provide shelter to lower income citizens and frequently receive substantial capital and operating programs from the U.S. Department of Housing and Urban Development (HUD).

Financial Reporting

General

Housing authorities are required to maintain accounts and present financial statements which comply with the reporting requirements established by the Governmental Accounting Standards Board (GASB). The basic financial statements of all housing authorities should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the combining statements, as well as the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

3. Supplemental information must include information for discretely presented component units that do not issue a separate audit report.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist housing authorities in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all *Tennessee Code Annotated* compliance requirements.

- Housing authorities that have formed joint venture entities with one or more governments should also refer to Section D, Reporting and Auditing Requirements - Special Purpose Governments, for applicable regulatory reporting requirements for joint venture entities.

Public Utility Districts

Background

Public utility districts in Tennessee are created under the authority of Title 7, Chapter 82, *Tennessee Code Annotated,* the Utility District Law of 1937. Utility districts created under this chapter are empowered to operate and maintain a system for furnishing any of the following: water, sewer, sewage disposal, natural gas, police, fire protection, garbage collection and garbage disposal, street lighting, parks and recreational facilities, transit facilities, community antenna television service, and transmission of industrial chemicals by pipeline to or from industries or plants within the boundary of the district. (***GO TO SELECTED LAWS – APPENDIX D***)

Although this law empowers a public utility district to furnish any of the above, most districts confine their services to furnishing water and/or sewer, or natural gas.

The comptroller's office is currently developing an internal control manual that will apply to all local governments and quasi-governmental organizations. The compliance, accounting and reporting portions of the *Internal Control and Compliance Manual for Tennessee Utility Districts* that are being retained have been moved to this manual. During the transition, the compliance, accounting and reporting matters in this manual supersede all such guidance in the *Internal Control and Compliance Manual for Tennessee Utility Districts.* The internal control portions in that manual are still in force.

Accounting, Books and Records

The Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book, is to be used as guidance for accounting and reporting where it does not conflict with:

(1) guidance in Manuals issued by the Comptroller's Office;
(2) recently issued GASB standards or any requirements of other standards setting bodies that have not been incorporated into the Blue book

The board should ensure that:

1. a complete, self-balancing group of accounts is established and maintained. For districts that provide non-homogenous services, such as gas and water, separate funds must be maintained for each service. Water and sewer services may be presented in a single fund, although a separate accounting for each activity is preferred. For adequate accounting, utility districts must maintain a general ledger, cash receipts journal, and cash disbursements journal for each fund, as well as subsidiary account records necessary to comply with legal provisions. Accounting records should be maintained on the accrual basis in accordance with generally accepted accounting principles.

In conjunction with this manual, all relevant sections in the Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), commonly known as the Blue Book, should also be followed, except for the illustrative chart of accounts in Appendix E of the GAAFR.

2. subsidiary ledgers, such as the utility accounts receivable listings, are used to maintain individual account transaction details to support the total in the general ledger control (summary) account.

3. adequate supporting documentation, such as prenumbered receipts, billing stubs, invoices, etc., is required to document all transactions.

4. complete minutes of actions taken by the board are maintained at the utility district's office. The official minutes should be signed as approved by the secretary of the board (or other authorized individual) and kept together in date order and be easily accessible. The minutes should include the following:

   a. copies of all resolutions adopted (including utility rates, cut-off policy, tap fees, etc.)

   b. schedules of personnel appointments and salary rates and changes (In larger districts where such information may not be practicably included in the minutes, the minutes should include documentation of: (1) all appointments and wage rates that must be set by the board; and (2) across the board wage increases. Adequate policies governing authorization of pay increases should be developed and maintained by the district. Wage and salary rates increases delegated by the board should be adequately documented in the personnel records.)

   c. copies of bond and revenue anticipation resolutions

   d. notices of public hearings and resulting decisions

   e. copies of federal and state grant applications (whether a final award was received or not)

   f. summaries of action taken on competitive bids

   g. copies of contracts entered into by the board. The board should, in most circumstances, obtain a written contract for all agreements with other entities or individuals for services received or provided, regardless of whether payment is involved, including the following:

      (1) contract labor and consultant agreements, day labor, and similar work

      (2) leases

(3) rentals

(4) management agreements

h. purchasing policy

i. expense reimbursement policy

j. other policies as adopted by the board

5. The following grid establishes the retention provisions recommended by the Comptroller for various district records.

For records not addressed in the grid, the following alternative procedures should be followed:

(1) The district should refer to the guidelines developed by the Municipal Technical Advisory Service (MTAS), pursuant to the requirements of *Tennessee Code Annotated* Section 10-7-702, for similar municipal functions. This guide can be accessed at http://www.mtas.utk.edu.

(2) Guidelines recommended by the Tennessee Association of Utility Districts (TAUD) should also be considered.

In applying the guidance provided by either of these organizations, the most conservative recommendation should normally be followed. The board must document the basis for any variance in applying the alternative procedures and the resulting retention policy established by the board. No variances reducing the amount of time records are required to be maintained are permitted for records specifically addressed in this manual.

MTAS has also issued New Amendments to the Federal Rules of Civil Procedure and Their Effects Upon Records Retention, that can be accessed at the same site.

Record	Retention Period	Legal Authority/Rationale
Annual Reports to Commissioners. Submitted by accounting office	Permanent record.	Historical purposes.
Audit Reports. All audit reports relative to district finances. Audit reports show account of all receipts and disbursements, date of	Permanent record.	Requirement of the Comptroller. Record has high historical value.

Record	Retention Period	Legal Authority/Rationale
audit, and signature of auditor.		
Bonded Indebtedness, Record of. Register book shows bond issue, date, and amount set up by year; as bonds and coupons are returned, these are shown in the book. Other records include the trust indenture, loan agreements, bond counsel opinion, documentation of expenditure of bond proceeds, copies of management contracts, documentation of security for the bonds, and documentation of investment of bond proceeds.	Permanent record.	Requirement of the Comptroller.
Cash Journals. Record of all receipts and disbursements as distributed to various district accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.	Permanent record.	Requirement of the Comptroller.
Certificate of Bond/Interest Coupons Destroyed	Permanent record.	Requirement of the Comptroller.
Charts of Accounts and Procedures Manuals.	Permanent record.	Requirement of the Comptroller.
Deeds and Other Title Documents.	Permanent record.	Requirement of the Comptroller.
Employee Payroll	Permanent record.	Requirement of the

Record	Retention Period	Legal Authority/Rationale
Records.		Comptroller.
Financial Reports to Commissioners. (1) General; (2) Final—Report gives information on different accounts, balances on last report, receipts, disbursements, commissions, transfers, balances on this report, totals, bank balances of district accounts in different banks, and classification of receipts (sources received from).	Permanent record.	These reports should be recorded in the minutes of the district. Requirement of the Comptroller.
General Ledger Accounts. Record of all receipts and disbursements for the various district accounts, showing date of entry, amount, source of receipt or purpose of payment, amount of debit or credit, and name of account credited or charged.	Permanent record.	Requirement of the Comptroller.
Accounts Payable Subsidiary Ledgers.	Retain 10 years.	Requirement of the Comptroller.
Accounts Receivable Subsidiary Ledgers.	Retain 10 years.	Requirement of the Comptroller.
Capital Asset Records. All assets capitalized, description (brand, year, serial number, etc.), dates put in service and taken out of service (sold, scrapped, etc.), location, depreciation (method, life, etc.), etc.	Retain 10 years after asset is disposed of.	Requirement of the Comptroller.
Expense Ledgers.	Retain 10 years.	Requirement of the Comptroller.
Inventory Ledgers.	Retain 10 years.	Requirement of the Comptroller.
Investment Ledgers.	Retain 10 years.	Keep for audit purposes

Record	Retention Period	Legal Authority/Rationale
Surplus cash investments, rate of interest, date, and amount collected.		and to address arbitrage concerns.
Journal Vouchers	Retain 10 years.	Requirement of the Comptroller.
Subsidiary Revenue Ledgers.	Retain 10 years.	Requirement of the Comptroller.
Voucher Register.	Retain 10 years.	Requirement of the Comptroller.
Bank Deposit Slips. Slips showing bank name and location and amounts and dates of deposits.	Retain 7 years.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Canceled Checks. Canceled checks showing date check issued, name of bank on which drawn, check number, to whom payable, purpose of payment, amount of check, and date canceled.	Retain 7 years.	Based on statute of limitations for legal action for breach of contract plus one year. *TCA* 28-3-109.
Cancelled Certificates of Deposit.	Retain 7 years.	Keep for audit and review purposes.
Check Books. Books containing stubs of checks issued by the district showing check number, date issued, name of payee, amount, and purpose of payment.	Retain 7 years after date of last check.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Check Stubs. From all district accounts.	Retain 7 years.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Claims Records. Documents regarding claims and settlements against the district.	Retain 7 years after the terms of the settlement have been met.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Contracts.	Retain 7 years after termination of contract..	Based on statute of limitations for legal actions for breach of

Record	Retention Period	Legal Authority/Rationale
		contract plus one year. *TCA* 28-3-109.
Development and Proposal Files. Reports, planning memos, correspondence, studies, and similar records created for and used in the development of grant proposals submitted to state or federal agencies and contracts relating to the grant.	Retain all unsuccessful applications for 5 years. Retain all records regarding grants that are received for life of grant plus 7 years.	Keep unsuccessful proposals in case of appeal or for administrative use in re-application. Keep records of grants received based on statute of limitations for contract actions. *TCA* 28-3-109.
Duplicate Receipts.	Retain 7 years.	Keep for audit and review purposes.
Insurance Policies.	Retain 7 years after expiration/cancellation of policy.	Keep for audit and review purposes.
Invoices.	Retain 7 years.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Leases (Excluding Real Property – For Real Property, Follow Above Guidance for Deeds).	Retain 7 years after expiration of the lease.	Based on statute of limitations for legal actions for breach of contract plus one year. *TCA* 28-3-109.
Customer Billing Stubs. Collection stubs for accounts paid.	Retain at least 5 years from the date the audit was filed with the Comptroller's office.	Keep in case of billing errors.
Daily Collection Report. Summarizes all cash/check collections by source and fund and indicates the deposit amount, amount retained for change and amount short or over.	Retain at least 5 years from the date the audit was filed with the Comptroller's office.	Keep for audit and review purposes.
Employee Time Records.	Retain 5 years.	Keep for audit and review purposes.
Meter Deposit Records.	Retain at least 5	Keep in case of billing

Record	Retention Period	Legal Authority/Rationale
Customer name, date service started, amount of deposit, type of service.	years after service is terminated and deposit is refunded or applied to bill.	errors.
Moveable, High-Risk, Sensitive Property. Inventory records of non-capitalized property items, such as cameras, computers, printers, scanners, etc.	Retain 5 years.	Keep for audit purposes and to ensure that such items are retained for use in the district and are not lost, misplaced or stolen.
Purchase Orders.	Retain 5 years.	Keep for audit and review purposes.
Cash Reconciliation Report. Shows balances at beginning of month, outstanding checks, cash balances, checks issued during month, checks paid, cash and outstanding checks at end of the month.	Retain at least 3 years from the date the audit was filed with the Comptroller's office.	Keep for audit and review purposes.
Garnishments.	Retain at least 3 years from the date the audit was filed with the Comptroller's office.	Fair Labor Standards Act (29 C.F.R. 516.5).
General Correspondence.	Retain 3 years.	Requirement of the Comptroller.
Inventory Records.	Retain at least 3 years from the date the audit was filed with the Comptroller's office.	Requirement of the Comptroller.
Redeemed Bond/Interest Coupons.	Retain until audit is complete and any exceptions related to the redeemed bond/interest coupons have been resolved for bonds/interest paid	Based on procedures in TCA 9-21-123.

Record	Retention Period	Legal Authority/Rationale
	and cancelled during the period covered by the audit. The district shall cause the certified list of bonds, notes, and coupons duly paid and cancelled to be recorded in the official minutes of the district.	

1. Section 6 The Tennessee Utility Management Review Board has adopted the following guidelines for evaluating the useful lives of assets of water and wastewater systems. The useful lives of assets should not exceed the appropriate guidelines listed below. Updated guidelines are under review and will be posted on the Comptroller's website when they are adopted.

Asset Account	Years
Office Furniture and Fixtures	10
Office Building	40
Equipment and Tools	10
Transportation Equipment	5
Pumps and Treatment Equipment	10
Well/Dam	Engineer's Estimate
Plant Buildings	40
Lines and Storage	40-50
Sewer System	40-50

Financial Reporting

General

Public utility districts maintain their accounting systems on the accrual basis, with the exception that revenue from utility sales may be recognized when billed. This method is widely accepted because of the difficulty in measuring utility services sold before the audit cut-off date. The amount of revenue earned and not recognized at year-end will be offset by the amount carried forward from the preceding year, and any net difference is generally minor. The basic financial statements of all utility districts should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*. Accounting procedures applicable to utility districts are set forth in the *Uniform Accounting Manual for Tennessee Utility Districts* published by the Comptroller of the Treasury. Additional guidelines can be found in the Government Finance Officers Association's 2012 *Governmental Accounting, Auditing, and Financial Reporting*, commonly known as the Blue Book.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum any combining and individual financial statements, the utility detail required by item 6 below, and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

3. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year.

4. Utility Rate Structure and Number of Customers.

5. Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx.

6. If the district provides several utility services (e.g. gas, electric, water, sewer or

a combined water and sewer operation, depending on the policies of the district, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net assets; revenues, expenses, and changes in net assets; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

Compliance and Other Regulatory Reporting Requirements

Appendix D, Section 6, is included to assist utility districts in identifying compliance matters from state statutes that are relevant to their operations. It can also be used by independent auditors when identifying and assessing risks related to auditee compliance with applicable state laws.

- The Appendix has been designed to segregate regulatory reporting requirements to the Division of Local Government Audit. These requirements are listed under the heading "Audits and Other Regulatory Reporting to Local Government Audit."

- The Appendix is not exhaustive and should not be relied on to identify all *Tennessee Code Annotated* compliance requirements.

- Utility districts that have formed joint venture entities with one or more governments should also refer to Section D, Reporting and Auditing Requirements - Special Purpose Governments, for applicable regulatory reporting requirements for joint venture entities.

Public Charter Schools

Background

Public charter schools are authorized to be created by TCA 49-13-101. They can be created for several reasons, as spelled out in TCA 49-14-106. All public charter school systems have a fiscal year end of June 30, and must be audited annually.

The Board of Education of public charter schools is required to maintain their accounts and records in accordance with generally accepted accounting principles and in conformance with the uniform chart of accounts and accounting requirements prescribed by the Comptroller of the Treasury. The internal school funds (activity, centralized or noncentralized cafeteria funds, and other internal school funds) of public charter schools should be accounted for and reported on in the same manner as the internal school funds of municipal school systems, as provided for in ***Section F*** of this manual.

NOTE: Please check the Division of Local Government Audit's web site for updates on Charter School reporting. (http://www.comptroller.tn.gov/la/ManualsGuidance.asp)

Financial Reporting

General

The basic financial statements of all public charter schools should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

Other Special Purpose Governments

Background

Many of the organizations in this category have in the past been referred to as quasi-governmental organizations. Generally, quasi-governmental agencies included development districts, human resource agencies, educational co-ops, and other organizations [except for municipalities, counties (and their political subdivisions), and state colleges and universities] whose charters are included in *Tennessee Code Annotated*. However, the other special purpose governments category is broader and encompasses those agencies previously considered to be quasi-governmental, as well as other entities which meet the definition of a government, such as:

- joint ventures established by 2 or more counties and or municipalities under the provisions of various state statutes including, but not limited to TCA 5-1-113, 5-1-114, 6-33-107, 7-56-105, and 12-9-104;
- joint economic and community development boards, as provided for in TCA 6-54-118,
- public building authorities, as provided for in TCA 12-10-101 et al; and
- industrial development boards, as provided for in TCA 12-9-104.

Such organizations should follow the accounting and reporting guidance established by the Governmental Accounting Standards Board related to a comprehensive annual financial report (CAFR), as applicable.

Program Specific Audits

See ***Section I***.

Financial Reporting

General

The basic financial statements of all special purpose governments should comply with the provisions of the Governmental Accounting Standards Board, as detailed in the *Codification of Governmental Accounting and Financial Reporting Standards*.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum any combining and individual financial statements, the utility detail required by item 4.c. below, and the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in

relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***. However, exceptions may be granted on an individual basis, depending on the magnitude of funding and significance to the audit objectives.)

3. Schedule(s) of Long-Term Debt, Principal, and Interest Requirements (e.g., bonds, notes, and other long-term debt–by individual issue) by Fiscal Year – All Funds.

4. If the special purpose government provides utilities to other governments and/or to private citizens, the financial report must include the following schedules, as applicable:

   a. Utility Rate Structure and Number of Customers

   b. Unaccounted for Water (See Example Schedule in ***Appendix A***). The American Water Works Association (AWWA) water loss reporting model must be used. For more information regarding the AWWA model you can access the water audit software at: http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx .

   c. If the special purpose government provides several utility services (e.g. gas, electric, water, sewer or a combined water and sewer operation, depending on the policies of the special purpose government, bond covenants, etc.) and accounts for all of those activities in a single fund, detailed schedules that provide information consistent with what would have been presented in fund financial statements should be included in supplemental information for each division/department (i.e., assets, liabilities and net assets; revenues, expenses, and changes in net assets; and cash flows). If sufficiently detailed information is included in the notes to the financial statements, these additional schedules are not required. This information is necessary to demonstrate compliance with state laws regarding utility operations.

   Note: Limited distribution utilities, i.e., utility systems that provide service only to other governments and not to private citizens, are **excluded** from being filed with the Utility Management Review

Board (UMRB) and the Water and Wastewater Financing Board (WWFB) (TCA 7-82-401(g)(1) and TCA 68-221-1010(a)) for net losses. However, they are subject to the oversight of the UMRB/WWFB if they have a deficit net position or are in default on debt.

Limited distribution utilities that do not supply **potable** water are not required to include a water loss schedule in the financial report.

Compliance and Other Regulatory Reporting Requirements

Other special purpose governments created by two or more local government entities under TCA Section 12-9-101 – 112 (local government joint ventures) are required to report certain information to local government audit. Local government joint venture entity means any entity created pursuant to this chapter, including, but not limited to, a self-insurance pool, trust, joint venture, nonprofit organization, or any other type of organization that is sponsored, owned, operated, or governed by two (2) or more local government entities as a separate and specific activity.

The information must be filed with local government audit within ninety (90) days of execution of the agreement. In addition, follow-up reporting is required when the participants or structure of the local government joint venture changes. The form that must be filed can be found on the web at:
http://www.comptroller.tn.gov/repository/CA/MG/LocalGovernmentJointVenture.pdf

The filing of the regulatory report is the responsibility of the local government joint venture entity. Each participating local government does not have to file individually.

See Appendix D, Section 6, Selected State Laws Affecting Special Purpose Governments – Selected Tennessee Code Annotated References for Utility Districts – Audits, Regulatory and Other Reporting to Local Government Audit, for other reporting requirements. Appendix D, Section 6, is included to assist other special purpose governments in identifying compliance matters that are relevant to their operations. However, it is not exhaustive and should not be relied on to identify all compliance requirements.

SECTION E

REPORTING AND AUDITING REQUIREMENTS NONPROFIT ORGANIZATIONS

Nonprofit Organizations

Background

Nonprofit organizations (other than those that meet the definition of a special purpose government) that receive funds from the various departments of the State of Tennessee through contractual agreements that establish a subrecipient relationship are subject to various auditing and reporting requirements. In addition, some departments may include an audit requirement in contracts that establish a vendor relationship. Principally, if a nonprofit organization expends $500,000 (for newer contracts, the amount has been increased to $750,000) (see comment on ***page vii of the Introduction, TCA 40-36-303(d)(1-3)_,*** for exception to this) or more of subrecipient funding (or of other funding subject to an audit per a state contract) received from the various departments of the State of Tennessee, the nonprofit will be required to have an audit conducted in accordance with the provisions of *Government Auditing Standards*. This provision applies regardless of the amount of federal funds received from all sources (i.e., directly from the federal government, flow-through (pass-through) funds from the State of Tennessee, Tennessee counties, municipalities, special purpose governments, other nonprofit organizations, etc.).

Contracts between nonprofit organizations and the State of Tennessee may involve only state money. However, the contracts often involve federal money received by the State of Tennessee and subsequently used to provide funding to nonprofit organizations. State contracts that include these federal flow-through funds must be combined with other federal funding sources for the purpose of evaluating the applicability of current federal audit requirements. Nonprofit organizations that are required to submit audited financial statements to the Tennessee Comptroller's Office and that meet the audit threshold for a Single Audit must submit the Single Audit to the Tennessee Comptroller's Office.

The budgeted composition of state contracts can generally be determined through a review of the Contract Summary Sheet attached to the contract. If a summary sheet is not available, the department executing the contract should be contacted to determine the funding source(s). Actual payment information should also be confirmed with the contracting department since budgeted amounts may differ from the final payments both in amount and funding composition.

Contracts that establish a subrecipient relationship or that are subject to audit take many forms.

Each contract should be evaluated to determine whether it should be treated as establishing a subrecipient relationship or is otherwise subject to audit. Such contracts should include an audit provision that refers to the current federal guidance. If there is any doubt regarding the audit requirement for a particular contract, the contracting department should be contacted. (***AUDIT CONSIDERATIONS FOR SUBRECIPIENT FUNDING – APPENDIX C***)

Program-Specific Audits

See ***Section I***.

Financial Reporting

General

Audit reports for nonprofit organizations shall conform to the requirements of the Financial Accounting Standards Board (FASB).

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.) The schedule should include in the expenditures state pass-through funding, whether it is federal or state dollars. The notes on the schedule should indicate that the funding was passed through to another entity.

SECTION F

REPORTING AND AUDITING REQUIREMENTS INTERNAL SCHOOL FUNDS AND CENTRALIZED CAFETERIA FUNDS

INTERNAL SCHOOL FUNDS

Background

Section 49-2-110, *Tennessee Code Annotated,* is titled "Student Activity Funds". However, the text of the law references activity funds and other internal school funds in several places. The accounting policy manual developed in response to that law refers to "other internal school funds" and has sections which define the three (3) accounting funds that are used: general; restricted; and cafeteria funds. However, what constituted internal school funds was not explicitly stated. Section 49-2-603, *Tennessee Code Annotated*, though explicitly only applicable to that part, has a detailed definition and description of what internal school funds are. That definition is reproduced below:

> **(2)** Internal school funds mean any and all money received and accounted for at individual schools, and specifically include, but are not limited to:
>
> **(A)** Any donation or grant made to the school, a school club, or any academic, arts, athletic, or social activity related to a school;
>
> **(B)** Funds for cafeteria services operated at the school;
>
> **(C)** Fees collected by the school;
>
> **(D)** Funds transferred to the local school from the school board that are to be accounted for at the local school level;
>
> **(E)** Funds raised through cooperative agreements with outside organizations;
>
> **(F)** Rental fees charged outside entities for use of school facilities; and
>
> **(G)** Student activity funds;

There are four (4) basic types of school systems: county, municipal, charter school systems and special school districts. County school systems with centralized cafeteria funds are required to contract with external independent accountants to perform certain procedures for the Division

of Local Government Audit, which they rely on when conducting their audit of the respective county. As a matter of convenience, these centralized cafeteria procedures (see ***Appendix C, pages APP.C-1 through APP.C-3***) are contracted for on the contract for the audit of the internal school funds.

ACTIVITY AND CERTAIN OTHER INTERNAL SCHOOL FUNDS

Background

Activity funds and certain other internal school funds are derived from contributions to a school and the fund raising activities of the student body. These activities are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the ***Tennessee Internal School Uniform Accounting Policy Manual***, and are accounted for in the general and restricted funds of the schools. The same auditing and reporting requirements apply to the internal school funds of county, city, charter schools, and special school district systems.

Auditing Considerations

When obtaining representations related to audits of activity and certain other internal school funds, it is the position of the Comptroller's Office that those representations should be obtained from the superintendent/director of schools, when that individual is active in the management of the internal school funds, as well as the principal and bookkeeper for each school.

Financial Reporting

General

Audit reports for activity funds and certain other internal school funds (excluding noncentralized cafeteria funds) shall conform to the general report outline set forth in Section A. The required statements and schedules for these funds, which are prepared based on an "other comprehensive basis of accounting," are detailed in the ***Tennessee Internal School Uniform Accounting Policy Manual***.

Additional Requirements of the Comptroller's Office

1. An opinion must be expressed on the combining and individual fund financial statements

2. An opinion on whether other accompanying information (i.e., other than the combining and individual fund financial statements addressed in item 1 above) is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and

State Financial Assistance must be opined on in relation to the basic financial statements.

3. A Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

CAFETERIA FUNDS

Background

Cafeteria funds, also referred to as school food authority funds, are governed by the requirements of the Internal School Accounting Act (Section 49-2-110, *Tennessee Code Annotated*) and the *Tennessee Internal School Uniform Accounting Policy Manual, and are accounted for in a fund of the same name.* The same reporting requirements apply to the cafeteria funds of county, city, charter schools, and special school district systems. However, the auditing requirements vary, depending on the type of system (county, city, charter schools, special school district) and whether the system is centralized or noncentralized. A centralized cafeteria system is one in which substantially all of the administrative activities (payroll, accounting, purchasing, etc.) are accounted for and reported by the local board of education. The administrative activities of noncentralized systems are performed at the individual schools.

Financial Reporting

General

Noncentralized Systems (county, city, charter schools, and special school districts)

Noncentralized cafeteria systems receive and account for money related to cafeteria operations at the individual schools, and are therefore considered to be internal school funds. Audit reports for noncentralized cafeteria funds shall conform to the general report outline. The required statements and schedules for these funds, which are prepared based on accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB), are detailed in the *Tennessee Internal School Uniform Accounting Policy Manual*.

Centralized Systems (County and Special School District)

Centralized systems account for the operations of the cafeterias in a central location (at the board of education) and not at the individual schools. Therefore, they are not defined as internal school funds. Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. However, because the documentation related to compliance with federal program requirements is maintained by the individual schools, the auditor for the school system's internal school funds is required to contract for and perform certain compliance procedures, generally referred to as USDA Procedures, as a subcontract auditor for the Division of Local Government Audit. These procedures may be found in ***Appendix C***. Documentation related to these procedures must be complete by September 30th of fiscal year being audited. A separate report on these procedures is not required; however, local government auditors will review the audit documentation to ensure that sufficient work was performed and adequately documented. The Division of Local Government Audit will rely on the contracted work as a basis for their opinion.

Centralized Systems (City and Charter Schools)

Normally a separate audit report is not issued for a centralized cafeteria system. These systems are generally audited as a part of the board of education audit. The design and performance of audit procedures related to compliance with federal programs are the responsibility of the firm conducting the audit of the board of education.

Additional Requirements of the Comptroller's Office

1. An opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, at a minimum the Schedule of Expenditures of Federal Awards and State Financial Assistance must be opined on in relation to the basic financial statements.

2. Noncentralized county, city, charter schools, and special school district systems are required to include a Schedule of Expenditures of Federal Awards and State Financial Assistance. (This schedule is required if the organization has expended any direct federal assistance or subrecipient funds, regardless of the amount expended. Assistance in the form of loans must separately identify both the federal and state portions. In addition, the composition of the schedule should conform to the example in ***Appendix A***.)

3. Centralized city systems and centralized charter school systems are governed by the requirements established for Municipalities and Charter Schools in this manual. (***MUNICIPAL CAFETERIA PROCEDURES – APPENDIX C)***

SECTION G

REPORTING AND AUDITING REQUIREMENTS ENTITIES RECEIVING FUNDS ONLY THROUGH THE MEDICAID WAIVER PROGRAM (DIDD)

Department of Intellectual and Developmental Disabilities (DIDD) Medicaid Waiver Contracts

Background

Certain service/vendor contracts, also referred to as provider agreements, executed with DIDD include an audit requirement. This requirement is meant to provide DIDD with information relevant to their legal responsibilities. Beginning in 2009, audits related solely to these contracts have been contracted for through the Department of Audit. Many organizations are private companies that would normally not be required to contract for an audit. Based on the contractual audit requirement, agencies that expend $500,000 or more (for newer contracts, the amount has been increased to $750,000, and the increased threshold will apply to audits of periods beginning on or after December 26, 2014) in assistance under these DIDD agreements will be required to follow most of the requirements that apply to all other organizations contracting with the Division of Local Government Audit.

The medicaid waiver program serves Tennessee citizens with intellectual disabilities. The funds that are disbursed cover services such as dental care, day services, nutrition services, and occupational therapy. Federal funds are used to provide these services; however, the agencies receiving these funds are providing a service for specific individuals and the character of the funds lose their federal identity. That is, the program and related disbursements for services do not constitute subrecipient funding, even though the original funding source is the federal government. The recipients are the individuals being served, not the vendors providing the service.

Financial Reporting

General

Audit reports for entities receiving **only** DIDD medicaid waiver funds shall conform to the general report outline in Section A. The required statements and schedules for these funds, shall comply with GAAP relevant to the type of organization being audited.

Additional Requirements of the Comptroller's Office

1. Some entities may be sole proprietorships. It would not be uncommon for this type of entity to have no assets, liabilities, or equity; however, a balance sheet must still be included, with 0's for all amounts.

2. An opinion on whether any accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is preferred for ALL supplementary information. However, if a Schedule of Expenditures of Federal Awards and State Financial Assistance is required (see item 3 below), it must be opined on in relation to the basic financial statements.

3. The Schedule of Expenditures of Federal Awards and State Financial Assistance does **not** need to be included if the only funding is related to the medicaid waiver contract. However, if the organization receives any subrecipient funding, the provisions in ***Section E*** related to this schedule should be adhered to.

SECTION H

REPORTING AND AUDITING REQUIREMENTS
TNInvestco Organizations

TNInvestco Organizations

Background

In July 2009, the legislature passed the Tennessee Small Business Investment Company Credit Act (the Act). This Act provided for the certification of partnerships, corporations, trusts or limited liability companies, whether organized on a for-profit or not-for-profit basis, by the Tennessee Department of Economic and Community Development (ECD), which are known as TNInvestco organizations. These organizations were awarded a share of a $200,000,000 original investment tax credit pool, based on the overall strength of an application submitted to ECD. Each TNInvestco is responsible for managing their share of the investment tax credit pool. Prior to making a proposed qualified investment in a specific business, each TNInvestco must request from ECD a written determination that the proposed investment will qualify as a qualified investment in a qualified business or, if applicable, a seed or early stage investment. An annual audit of each TNInvestco is required by the Act.

Financial Reporting

General

The financial reports for TNInvestco organizations should be prepared in accordance with generally accepted accounting principles applicable in the United States as well as the additional guidance found in:

- the memorandum issued by the Department of Economic and Community Development dated November 13, 2014;
- Guidelines For Preparing Schedules 2014 – Examples issued by the Department of Economic and Community Development.

Additional Requirements of the Comptroller's Office and the Department of Economic and Community Development

1. The audit must be conducted in accordance with the provisions of *Government Auditing Standards.*

2. For those entities that net the reimbursements and proceeds, an additional schedule showing the detail of the reimbursements and proceeds that would have otherwise been reported as revenues and expenses must be included in the financial report. This schedule must be opined on as supplemental information.

3. An opinion on whether any accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole is required for ALL supplementary information.

Other Regulatory Reporting

TNInvestco's must also contract for and submit an attestation report that includes the following schedules:

1. a Schedule for Jobs and Follow-on Capital;

2. a Schedule of Pacing Requirements and Liquidity Events.

SECTION I

REPORTING AND AUDITING REQUIREMENTS PROGRAM SPECIFIC AUDITS

Background

The Comptroller of the Treasury requires that program-specific audits of state funds, when approved, be conducted in accordance with *Government Auditing Standards* (Yellow Book).

Program specific audits of federal funds must be approved by the grantor and the Comptroller's Office. Care needs to be taken to ensure that any additional requirements of the federal granting agency are complied with.

There are two basic reporting options, and the option that will be used must be agreed upon by the entity, grantor and Comptroller's Office prior to executing a Contract to Audit Accounts. The Contract to Audit Accounts should reference the option approved in the special provisions section of the Contract to Audit Accounts.

Any program specific audit submitted to the Comptroller's Office that has not been preapproved will not be accepted.

Reporting

Option 1

The basic report outline is:

- the independent auditor's report;
- a detailed schedule of revenues and expenditures (expenses) (detail includes presenting expenditures/expenses by natural classification; e.g., salaries, office supplies, repairs and maintenance, etc.)
    - (This schedule can be structured to double as the schedule of expenditures of state/federal awards)
- a schedule of expenditures of federal awards and state financial assistance (if the option in the previous item is not implemented);
- a yellow book report on internal control and compliance and, if applicable, an OMB Circular A-133 report on internal control and compliance, as appropriate.

Option 2

The basic report outline is:

- complete financial statements for the program;
  (titles of statements, basis of accounting, etc. dependent on the entity type)
  - balance sheet/statement of net assets/net position;
  - operating statement/statement of revenues, expenses/expenditures and changes in net position/net fund assets;
  - statement of cash flows (if applicable);
  - a schedule of expenditures of federal awards and state financial assistance;
- a yellow book report on internal control and compliance
- an OMB Circular A-133 report on internal control and compliance if federal funds are involved.

SECTION J

REPORTING AND AUDITING REQUIREMENTS MEDICAID COST REPORT ENGAGEMENTS

Reporting Requirements and Examination Procedures for Medicaid Cost Report Engagements

Introduction

The Tennessee Department of Finance and Administration is the single state agency responsible for administering the Tennessee nursing facility program which is part of the Tennessee Medical Assistance Program under Title XIX of the Social Security Act. The Centers for Medicare and Medicaid Services, Department of Health and Human Services, specifies certain conditions states must meet to participate in the Title XIX program. One of those conditions is that single state agencies must conduct or contract to conduct examinations of nursing facilities participating in the program. States are given flexibility in determining the scope and extent of the examinations.

The Tennessee Department of Finance and Administration, in meeting its obligation, has contracted with the Tennessee Comptroller of the Treasury to perform the examinations. The department has specified certain procedures for the Comptroller to conduct on the nursing facilities. These procedures are specified in detail in an attachment to the contract between the department and the Comptroller.

Medicaid nursing home examinations are intended to meet the following objectives:

1. The first objective to be attained by performing the examinations is to determine if income, expenses, and statistical information reported on nursing facility cost reports submitted to the Tennessee Comptroller's Office are reasonable, allowable, and in accordance with state and federal rules, regulations, and Medicare principles of reimbursement issued by the Department of Health and Human Services, Centers for Medicare and Medicaid Services.

2. The second objective to be attained is to determine whether resident days reported on the Medicaid Cost Report have been counted in accordance with state regulations and whether Medicaid resident days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.

3. The third objective to be attained is to determine whether charges made to nursing facility residents or residents' personal funds are in compliance with state and federal regulations. The standards under which these examinations are performed include the department's regulations, bulletins, and manuals issued which address the requirements, and the contracts between the state and the participating nursing facilities.

4. The final objective is to make recommendations to correct deficiencies discovered in completing the examination. The department has, in its procedures, also specified that the Comptroller shall include certain background about the nursing facility and shall provide each nursing facility the opportunity to include its comments on the results of the examination in the report. In addition, the department has specified that the Comptroller shall make necessary rate adjustments as a result of the examination. The department is responsible for implementation and enforcement of rate adjustments and collection of monetary refunds from contracting nursing facility providers resulting from the Comptroller's recommendations.

Medicaid Rules and Regulations

The state regulations that govern the administration of the Tennessee Medicaid nursing home program with respect to reimbursement and coverage issues are contained in Chapter 1200-13 of the Rules of the Department of Finance and Administration. Chapter 1200-8-6 contains the nursing home minimum standards that deal with matters such as building standards, safety requirements, and other quality of care rules. Since the nursing home payment methodology is based on Medicare principles of reimbursement, the *Medicare and Medicaid Guide* also serves as a regulatory source. Medicaid nursing home coverage in general is set forth in the Nursing Facility Manuals published by the Department of Finance and Administration. From time to time, the department issues "Medicaid Bulletins" to update providers on policy changes or interpretations of current policy.

Cost Reporting Requirements

Nursing homes are required to submit an annual cost report to the Comptroller's Office. The Level I nursing facility cost report (formerly known as the intermediate care cost report) forms and instructions are contained within Chapter 1200-13 of the state regulations and are due within 90 days of their fiscal year end. The Medicaid Level II nursing facility program (formerly known as the skilled program) uses the Medicare nursing home cost report form and are due within 5 months of their fiscal year end.

Examinations

The examination procedures to be conducted by the Tennessee Comptroller's Office are given below in condensed form along with the associated criteria. It should be noted that the Department's nursing home manual was issued January 1987. Although the manual has not

been revised, a number of Medicaid bulletins have been issued for rule revisions. We have made revisions in the criteria given below where appropriate.

Expenses–Criteria

The cost report footnotes and instructions and the nursing facility Level I accounting principles are the primary source for criteria concerning allowable costs. These documents are found in state rule Chapter 1200-13 and are also available on the Secretary of State's website. If an item is not addressed in the footnotes or apportionment principles, Medicare principles of retrospective cost reimbursement apply, and reference should be made to the *Medicare and Medicaid Guide.*

Expenses–Procedures

1. Compare salaries on the cost report to the provider's quarterly wage reports. If the wage reports are not available, use the home's payroll records. Variances exceeding 2% should not be written off as immaterial.

2. Review the quarterly wage reports for reasonableness. Any non-owner employee's salary that exceeds $20,000 per quarter should be checked for reasonableness.

    a. Note the employee's title and duties.

    b. Note the percentage of time he or she works.

    c. Determine if that employee is overlapping or duplicating the duties of another employee.

3. Obtain a signed statement from owner-employees or their relatives, stating their duties, percentage of time working, and compensation, including all fringe benefits. This data is then used to test the accuracy of the maximum allowable salary limits for the provider. The rules for applying the salary limits are given in the cost report apportionment principles.

4. Select transactions from other expense accounts for review. The transactions selected for review should cover the entire examination period, if feasible. Describe the method for selecting the transactions reviewed.

5. Scan the ledgers and journals for unusual items.

6. For the selected test transactions, examine the paid check and invoice. Determine if the expense is allowable.

7. If this is the first cost report, verify that property is properly recorded at cost and is present at the facility.

8. Review the depreciation computations for the examination period and the accuracy of useful lives.

9. Obtain and review support for interest expense and trace the amounts to the cost report.

10. Review the adjustments made to section G of the cost report.

11. Determine if the general ledger control account is supported by a listing of accounts payable or if the open items can in some way be identified.

12. If considered necessary, verify that year-end payables have been paid in the subsequent period.

Resident Days–Criteria

The criteria governing resident days are found in Sections 321 through 325.1 of the January 1987 *Intermediate Care Facility Manual.* (Note: Since the last issue of the manual, Intermediate Care (ICF) is now referred to as Level 1 nursing facility care.)

Resident Days–Procedures

1. Trace total resident days from the nursing home census (or resident log) to the cost report.

2. Foot monthly totals.

3. List the monthly totals and compare them to the available days for that month.

4. For any day in which capacity is below 85%, verify if any hospital or therapeutic days have been billed to the program.

5. Selecting the month where the occupancy percentage is closest to 85%, test the census records for proper accumulation.

6. Review the census records for Medicaid residents who were either in the hospital or on therapeutic leave over 10 days. Verify that days over 10 have not been billed to the Medicaid program during any state fiscal year.

7. In the test month, verify the accuracy of admission and discharge dates with the admission records.

8. Review one month of census records for each six months during the examination period for Medicaid residents who were discharged or deceased.

Verify the facility was not reimbursed for the date the Medicaid resident was discharged or deceased if before noon.

Trust Funds–Criteria

Medicaid recipients who are residents in nursing homes are permitted $50 per month for personal spending needs. The $50 is generally deducted from each recipient's income, and the remainder is applied to room and board charges. State Rule Chapter 1200-8-6 and *Tennessee Code Annotated,* Section 68-11-906 provide rules and regulations governing trust funds. The Nursing Facility Manuals provide guidance on the treatment of resident deposits.

Sections 66-29-101 through 66-29-133, *Tennessee Code Annotated*, govern the disposition of balances owed to residents after they have left the facility. Generally, the law requires nursing homes to report unclaimed property and credit balances to the State Treasurer each year. However, nursing homes may, at their option, elect to hold the funds for the statutory period from the date of last account activity before reporting to the State Treasurer. However, if the nursing home holds the funds for the statutory period, then it must document that it has made a reasonable attempt to locate the owner of the funds. At the end of the statutory period, any accrued interest must also be reported and returned to the State Treasurer.

Generally, residents should not be charged for "covered services." Covered services are items and services included in the per diem rate for all routine services. An exception is permitted when a resident or his or her doctor requests a special brand item not normally stocked by the nursing home. Per Medicaid Bulletins No. 93-2 and No. 94-1, when a specific diaper is requested, the facility is only allowed to charge the resident the difference between the cost of the diaper stocked by the facility and the diaper specifically requested by the resident.

Trust Funds–Procedures

1. As of a specific date, balance the trust fund subsidiary accounts to the general ledger control account.

2. Balance cash on hand and in bank to the general ledger control account.

3. Select 10% of Medicaid trust fund accounts (minimum of 3, maximum of 10), and for the examination period, test each account for

    a. receipt of the monthly personal needs allowance;

    b. documentation that withdrawals are for personal needs only and not for covered services;

    c. placement of all funds in excess of $100 per recipient in an insured interest-bearing account.

4. Check the trust fund accounts of deceased or discharged Medicaid recipients for credit balances.

5. Examine the resident trust fund surety bond and determine if the amount of the coverage is adequate to cover the account balance at any point during the period.

Resident Accounts–Criteria

The criteria for examining resident accounts are general in nature and do not differ significantly from procedures for examining accounts receivable. However, several special circumstances are explained in the following paragraphs.

Medicaid residents must not be charged above the private rate for comparable services. If private-pay residents are charged extra for central supplies or other items that are included in the rate for Medicaid residents, these items should be added to the private resident charge to arrive at a comparable service for this test.

Form 2362 is initiated periodically by the Bureau of TennCare and indicates the amount the resident is to pay toward his or her room and board. A copy is sent to the nursing home and a copy to the Medicaid fiscal agent for data entry.

Testing for extra charges is similar to testing the trust fund for covered services.

Nursing homes should use a separate ledger card for the transactions of a Medicaid Level II facility and for a Medicaid Level I facility.

Resident Accounts–Procedures

1. Select at least two private-pay resident accounts and determine the private room and board amount charged. This information can be used to determine that Medicaid residents are not charged more than private-pay residents for comparable services.

2. Select one Medicaid resident account for every 20 licensed beds (maximum 10) for review. Verify the use of the correct resident liability from Form 2362. Test the ledger entries for six months to determine that the charges, collections, and balances are correct and accurately recorded.

3. Scan all ledger accounts for unrefunded credit balances for only deceased or discharged residents.

4. Determine whether the facility maintained evidence that the resident's authorized representative was notified of a credit balance.

5. Test the selected accounts for nonallowable extra charges.

Independent Accountant's Report

(Date)

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Darin Gordon, Deputy Commissioner
Bureau of TennCare
310 Great Circle Road, 4W
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated _____, that _____ complied with the following requirements:

- Income and expenses reported on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended _____, are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.

- Resident days reported on the Medicaid cost report have been counted in accordance with state regulations. Medicaid resident days billed to the state from _____ through _____, when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.

- Charges to residents and charges to residents' personal funds from _____ through _____, are in accordance with state and federal regulations.

As discussed in management's representation letter, management is responsible for ensuring compliance with those requirements. Our responsibility is to express an opinion based on our examination.

Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about _____'s compliance with those requirements and performing other such procedures we considered necessary. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on _____'s compliance with specified requirements.

Our examination disclosed the following instances of material noncompliance applicable to state and federal regulations:

- _____

In our opinion, except for the instances of material noncompliance described above, _____complied with, in all material respects, the aforementioned requirements for the income and expenses reported on the Medicaid cost report for the period _____, through _____; resident days for the period _____, through _____; and for resident accounts for the period _____, through_____.

This report is intended solely for the information and use of the Tennessee General Assembly and the Tennessee Department of Finance and Administration and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Deborah V. Loveless, CPA
Director

SECTION K

REGULATORY REPORTING AND COURTESY FILING GUIDELINES

There are many regulatory reports that must be filed by the entities that are required to submit an audit to the Comptroller's Office. This section only addresses those requirements where a regulatory report must be filed with local government audit by entities that are not required to contract for and submit an audit to local government audit.. Other divisions within the Comptroller's Office may have additional regulatory filing requirements that are not addressed in this manual.

Specialty License Plate Funds

Background

Pursuant to the requirements of Section 55-4-201(k), *Tennessee Code Annotated (TCA)*, nonprofits that receive funds from the sale or renewal of a specialty earmarked license plate must file an annual accounting of all such funds with the Comptroller's office by September 30 of each year for funds received from July 1 through June 30 of the preceding state fiscal year.

Regulatory Reporting

Please refer to the Comptroller's web site for current guidance for this annual reporting requirement. The regulatory report must be submitted by the nonprofit entity.

Local Government Joint Venture Entities

Background

TCA Sections 12-9-101 – 112, permit two or more local government entities to create local government joint ventures. Local government joint venture entity means any entity created pursuant to this chapter, including, but not limited to, a self-insurance pool, trust, joint venture, nonprofit organization, or any other type of organization that is sponsored, owned, operated, or governed by two (2) or more local government entities as a separate and specific activity

Interlocal agreements which do not create a separate entity are not subject to the reporting requirements of this *TCA* section.

Regulatory Reporting

Any interlocal agreement entered into by local governments that creates a local government joint venture entity must be filed with local government audit within ninety (90) days of execution of the agreement. In addition, follow-up reporting is required when the participants or structure of the local government joint venture changes. The notification form can be found at

http://www.comptroller.tn.gov/repository/CA/MG/LocalGovernmentJointVenture.pdf

The filing of the regulatory report is the responsibility of the local government joint venture entity. Each participating local government does not have to file individually.

Summary financial information is required to be submitted since the local government joint venture does not submit audited financial information.

Volunteer Fire Departments

Background

TCA Section 68-102, part 3 was amended to require the governing board of each recognized volunteer fire department receiving appropriations from "…the federal government, the state, a county or a municipality, either directly or indirectly, to file an annual financial report with the comptroller of the treasury and each local government body from which the department received appropriations…."

Regulatory Reporting

The report is to cover the period July 1 through June 30 of each year and is due no later than the following December 31. The first report is due on December 31, 2015 for the period July 1, 2014 through June 30, 2015. Each volunteer fire department is responsible for filing the regulatory report. A copy of the required report is located on Local Government Audit's web site..

SECTION L

QUICK REFERENCE LINKS

Audit Manual Web References

Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts

http://www.comptroller.tn.gov/la/pdf/TNECDManual2008.pdf

CFDA Catalog

https://www.cfda.gov/

Collateral Pool Banks

http://www.treasury.state.tn.us/bank/index.html

Confirmation Contacts and Phone Numbers

http://www.comptroller.tn.gov/la/Confirmations.asp

Contract to Audit Accounts

https://www.comptroller.tn.gov/RA_Upload/

County Chart of Accounts

http://www.comptroller.tn.gov/la/LGSlocalGovernment.asp

Government Auditing Standards (Yellow Book)

http://www.gao.gov/yellowbook

Grantor Agency Contacts /Grantor Information

http://www.comptroller.tn.gov/la/grantcon.asp

OMB Circular A-133 Compliance Supplement and OMB Circulars

http://www.whitehouse.gov/omb/circulars_default/

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

https://www.whitehouse.gov/omb/grants_docs/

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – Q&A (COFAR)

https://cfo.gov/cofar/

On-line Confirmations

http://www.comptroller.tn.gov/la/Confirmations.asp

Property Assessments

http://www.comptroller.tn.gov/pa/

State Department Phone Numbers

http://www.comptroller.tn.gov/la/grantcon.asp

Tennessee Code Annotated

http://www.lexisnexis.com/hottopics/michie/

Tennessee Internal School Uniform Accounting Policy Manual

http://tennessee.gov/education/support/doc/July2011TISUAPM.pdf

American Water Works Association – Water Audit (Loss) Software

http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx

Governmental Accounting, Auditing, and Financial Reporting, (Blue Book)

http://www.gfoa.org/index.php?option=com_content&task=view&id=393&Itemid=192

Manuals

For a complete listing of manuals for which the Comptroller's Office is responsible, please visit the Comptroller's Manuals page.

http://www.comptroller.tn.gov/shared/manuals.asp

Local Government Services

Certain recurring situations and questions, reporting questions, new developments and other general information have been addressed on the Comptroller's web site. This information can be accessed on the web at:

http://www.comptroller.tn.gov/la/LGSlocalGovernment.asp

APPENDIX A

EXAMPLE SCHEDULES

Schedule of Unaccounted for Water

For reports submitted January 1, 2015 and later, the updated (version 5.0) American Water Works Association (AWWA) water loss reporting model must be used. The updated form increased from one to two pages. The annual financial report must include the following schedule. In addition, the complete, unaltered AWWA Excel file must be uploaded when the annual financial reported is submitted. The entity will be officially referred to the appropriate board (Water and Wastewater Financing Board or Utility Management Review Board) if data for the following items is not presented in both the audit report and the AWWA Excel file:

- Water audit data validity score
- Performance Indicator
    - Non-revenue water as percent by cost of operating system

If the AWWA reporting worksheet is not printed directly to a PDF file, please change the print setup in Microsoft Office Excel to print the AWWA reporting worksheet in black and white and remove the gridlines to create a clean copy that is easy to duplicate.

For more information regarding the AWWA model you can access the water audit software at:
http://www.awwa.org/resources-tools/water-knowledge/water-loss-control.aspx

Schedule of Changes in Property Tax Receivable

Town of Anywhere
Schedule of Changes in Property Tax Receivable
June 30, 2015

Tax Year	Property Tax Receivable Balance June 30, 2014	Property Tax Levied	Anticipated Current Year Levy	Abatements and Adjustments	Collections	**(This column is optional)** Allowance for Uncollectibles	Net Receivable Balance June 30, 2015
2015	$ -	$ -	$100,500	$ -	$ -	$ -	$100,500
2014	-	100,000		(500)	(95,000)	(300)	4,200
2013	3,000			(20)	(1,000)	(350)	1,630
2012	2,000				(150)	(300)	1,550
2011	1,000				(325)	(250)	425
2010	800				(250)	(200)	350
2009	600				(100)	(250)	250
2008	400				(200)	(100)	100
2007	300				(90)	(100)	110
2006	200			(50)	(75)	(50)	25
2005	100				(20)	(70)	10
Totals	$8,400	$100,000	$100,500	($570)	($97,210)	($1,970)	$109,150

NOTES: All uncollected taxes for years prior to 200X have been turned over to the Clerk and Master for collection.

Schedule of Expenditures of Federal Awards and State Financial Assistance

Anytown, Tennessee
Schedule of Expenditures of Federal Awards and State Financial Assistance
For the Year Ended June 30, 20XX

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
Federal Awards			
US Dept. of Transportation*	20.509	04-37689-5	$ 400,320.00
US Dept. of Transportation/TN Dept. of Transportation	20.509	Z9704933	490,723.14
Total Program 20.509			$ 891,043.14
US Dept. of Agriculture/TN Dept. of Agriculture (Note: Noncash Assistance)	10.555	GR9707367	$ 1,400.93
US Dept. of Justice	16.580	N/A	20,000.00
TOTAL FEDERAL AWARDS			$ 912,444.07
State Financial Assistance			
TN Dept. of Environment & Conservation	N/A	Z60728725	$ 26,853.19
TN Dept. of Human Services	N/A	GR6104895	19,584.68
TOTAL STATE AWARDS			$ 46,437.87
TOTAL FEDERAL & STATE AWARDS			$ 958,881.94

*This grant was passed through to a subrecipient, the Clearwater Utility District.

Loans Outstanding:
Note 1: At June 30, 20XX, there was an outstanding balance of $352,291.07 on a loan obtained in a previous year through the State Revolving Loan Fund. The loan was 80 percent federally funded. Payments during the current fiscal year totaled $23,818.54.

Basis of Presentation:
Note 2: The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of Anytown under programs of the federal and state governments for the year ended June 30, 20XX. The schedule is presented using the modified accrual basis of accounting.

Schedule of Disposition of Prior Year Findings[1]

Tennessee Entity
Schedule of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2015

Financial Statement Findings

Finding Number[1]	Finding Title[1]	Status
2014-001	Segregation of Duties (original finding # 2010-001)	Repeated
2014-002	Cash not Deposited Timely (original finding # 2011-004)	Corrected
2014-003	Lack of Computer Controls (original finding # 2012-001	Repeated

Federal Award Findings and Questioned Costs

Finding Number[1]	Finding Title[1]	Status
2014-004	Eligibility not Verified (original finding # 2011-001)	Corrected
2014-002	Unallowable Costs Claimed for Reimbursement (original finding #2012-0020	Corrected

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[1] If there were no prior year findings, a note should be included such as "There were no prior findings reported."

The format for finding numbers should be consistent with the above format. That is, 4 digit year, dash, 3 digit finding number, beginning with 001, and continuing (002, 003, etc.).

The original titles should be carried over each year from the year that the finding was first developed for uncorrected findings, with a subheading indicating the original finding number.

Transition guidance:
If findings have been repeated for several years, but the original finding number or title is not known, begin with the immediately preceding year and continue forward from that time.

The format for prior year findings should be altered to be consistent with the above format. That is, 4 digit year, dash, 3 digit finding number, beginning with 001, and continuing (002, 003, etc.).

APPENDIX B

CURRENT DEVELOPMENTS AND OTHER MATTERS

Audits of Group Financial Statements

The contract to audit accounts addresses certain requirements related to auditing requirements in the *AICPA Professional Standards*, Section AU-C 600. The requirements, though included in all audit contracts, only apply to those organizations/funds (components) whose financial statements are included in a county that is audited by the Division of Local Government Audit.

For those independent public accounting firms that are acting as the auditor of group financial statements, similar matters will need to be addressed with the component auditors separately from the contract to audit accounts. Such communications may or may not be included by reference in the contract to audit accounts. The audit requirements are significant and complex, and care should be taken to ensure that audit documentation and communications address all matters related to such audits. Component auditors may be required to adjust audit procedures and the release date included in the contract to audit accounts to coordinate with the group auditor.

Audit Threshhold Increased

For audits of periods beginning on or after December 26, 2014, the comptroller has prescribed that any nongovernmental entity that expends $750,000 or more under a state contract which establishes a subrecipient relationship (which may include federal pass-through awards) during a year is required to have an audit conducted in accordance with Government Auditing Standards (Yellow Book).

The threshold for audits of entities receiving funds through the Department of Intellectual and Developmental Disabilities (DIDD) under the Medicaid waiver program will also increase to $750,000 for audits of periods beginning on or after December 26, 2014.

Both of these changes are consistent with the change in the federal audit threshold which is addressed in the "Uniform Administrative Requirements, Cost Principles, and Audit Requirements, for Federal Awards", Title 2, Code of Federal Regulations, Part 200.

Regulated Industry Accounting

An entity that applies the provisions of the *Codification of Governmental Accounting and Financial Reporting Standards*, Section Re.105, and capitalizes an incurred cost that would otherwise be charged to expense (e.g. bond issue costs, interest, etc.) must comply with all of

the requirements related to being a regulated industry. When auditing an entity who is applying those guidelines, if they have not met all of the requirements, it is quite possible that the financial statements will be materially misstated and if the entity will not revise it's reporting, a modification to the opinion would be required. Please note that unless there is a clear and unambiguous reason why a regulatory basis of accounting should be adopted, as in the instance of electric systems, the comptroller's office **does not recommend implementing those provisions.**

Pensions

Testing Census Data:

Several memorandums have been issued by local government audit related to pension auditing requirements. The documents present the plan for auditing census data for those local governments that participate in the Tennessee Consolidated Retirement System (TCRS) and can be accessed from local government audit's web site at

http://www.comptroller.tn.gov/la/LGSlocalGovernment.asp

Single Employer Plans Adminstered by Local Governments:

A number of single employer plans for various local governments have been identified that have never been audited. In many cases both the local government and the auditor believed that a private sector company was the administrator. However, when the plan documents were reviewed, the private sector company was managing/administering the plan as an agent of the local government and the local government was identified as the administrator. When the administrator is a Tennessee local government, the plan is subject to the audit oversight of Local Government Audit.

In some cases the pension plan was listed as subject to the federal Employee Retirement Income Security Act (ERISA) or the plan financial statements were prepared in accordance with the FASB's *Accounting Standards Codification*. Local government pension plans are not subject to ERISA and should use the reporting standards established by GASB.

If a local government has a non-TCRS pension plan, both the local government and the auditor should review the plan documents to determine if the plan is subject to the audit oversight of Local Government Audit.

Statutory Pension Funding Requirements:

Section 9-3-504, *Tennessee Code Annotated*, requires politicial subdivisions to develop a funding plan for any defined benefit pension plan that it maintains, directly or indirectly, and irrespective of the manner in which the pension plan is administered. The funding plan must be developed for fiscal years beginning after June 15, 2015, and must be submitted to the Office of State and Local Finance within the Comptroller's Office within thirty (30) days after adoption. Amendments to the plan should be filed in the same manner.

Liquor by the Drink Tax – New Legislation

The provisions of Section 57-4-306(b), *Tennessee Code Annotated,* regarding the distribution of liquor by the drink taxes were extended through June 30, 2016. There may be local governments that are still litigating matters related to this tax from last year while other local governments may have reached settlements. Auditors should be aware of this and consider the disclosure and financial reporting required in each situation.

Audit Committees

Local governments are encouraged to consider establishing an audit committee. However, the comptroller may require that an audit committee be established in any local government in this state that:

(1) Is in noncompliance with the accounting and financial reporting standards required by the GASB on or after the prescribed date of June 30, 2008; or

(2) Has a recurring finding from the annual audit for three (3) or more consecutive years as determined by the comptroller to be a material weakness in internal control or material noncompliance under government auditing standards.

Standardized Chart of Accounts

The Comptroller's Office is currently gathering information and evaluating a standardized chart of accounts for municipalities and utility districts. Later this year the chart of accounts committee will be meeting to update and refine the chart of accounts posted on the Municipal Technical Advisory Service's web site. Local governments that are considering purchasing new accounting software or that are modifying their chart of accounts should use the chart of accounts posted on the Municipal Technical Advisory Service's web site as a template for their chart of accounts.

Annual CMFO Reporting Requirement for Municipalities

Municipalities will be required to complete an annual CMFO reporting form in the Contract and Reporting System (CARS). A notification will be emailed to all municipalities when the on-line report it ready. Municipalities will have sixty (60) days to complete the annual report.

New Legislation for all Local Governments

Closing the Books:

Section 9-2-102, *Tennessee Code Annotated,* was amended to require all local governments to close their official accounting records and to have those records available for audit no later than two (2) months after the close of their fiscal year end. The requirement is effective on July 1, 2015.

Guidance regarding closing the books can be found in **Appendix D**

Internal Control:

Section 9-18-102(a), *Tennessee Code Annotated,* was amended to require all local governments to establish and maintain internal controls that would provide reasonable assurance that (1)obligations and costs are in compliance with applicable laws, (2)funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriations and (3)revenues and expenditures 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. The requirement is effective June 30, 2016. All local governments should have their internal control policies and procedures developed, in writing, and in place by that date.

Summary of Changes in Auditing and Reporting Requirements

Effective for the year ended June 30, 2015:

1. **GASB 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Defined Benefit Pensions

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date and to incorporate the effects of projected salary

changes (if the pension formula incorporates future compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Single and Agent Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect

on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting

In governmental fund financial statements, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements

The Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

- For the current year, sources of changes in the net pension liability
- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

Required Supplementary Information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

- Sources of changes in the net pension liability

- The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

If the contributions of a single or agent employer are actuarially determined, the employer should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are

required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

Defined Contribution Pensions

An employer whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in the pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to a defined contribution pension plan. In governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

Special Funding Situations

In this Statement, special funding situations are defined as circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan

that is used to provide pensions to the employees of another entity or entities and either (1) the amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to a pension plan.

This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the nonemployer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental nonemployer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.

This Statement also establishes requirements related to special funding situations for defined contribution pensions.

Effective Date and Transition

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the

entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of pension measurements.
- Explanations of how and why the net pension liability changed from year to year will improve transparency.
- The summary net pension liability information, including ratios, will offer an indication of the extent to which the total pension liability is covered by resources held by the pension plan.
- The contribution schedules will provide measures to evaluate decisions related to the assessment of contribution rates—in comparison to actuarially, statutorily, or contractually determined rates, when such rates are determined. It also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with those contribution rates.

The consistency and transparency of the information reported by employers and governmental nonemployer contributing entities about pension transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the pension plan's fiduciary net position associated with the pensions of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations
- Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of changes of benefit terms and the effects of projected pension plan investment earnings
- Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions.

2. **GASB 69, *Government Combinations and Disposals of Government Operations***

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term

government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.
The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, *Business Combinations*. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

3. **GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement***

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no

earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

4. **GASB Comprehensive Implementation Guide (CIG) – 2014-2015 is available.**

5. **AICPA SAS No. 128, *Using the Work of Internal Auditors***

As a result of its Clarity Project, the Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 128, *Using the Work of Internal Auditors*, which

supersedes SAS No. 65, The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements (AICPA, Professional Standards, AU sec. 322 and AU-C sec. 610),

amends SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AICPA, Professional Standards, AU-C sec. 315), and

various other sections in SAS No. 122 (AICPA, Professional Standards, AU-C secs. 200, 220, 230, 240, 260, 265, 300, 402, 500, 550, and 600); and

Statement on Quality Control Standards No. 8, A Firm's System of Quality Control (Redrafted) (AICPA, Professional Standards, QC sec. 10).

SAS No. 128 addresses the external auditor's responsibilities if using the work of internal auditors. Using the work of internal auditors includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision, and review of the external auditor.

SAS No. 128 does not apply if the entity does not have an internal audit function. If the entity has an internal audit function, the requirements in SAS No. 128 relating to using the work of the internal audit function in obtaining audit evidence do not apply if

a. the responsibilities and activities of the function are not relevant to the audit, or
b. based on the external auditor's preliminary understanding of the function obtained as a result of procedures performed under AU-C section 315, the external auditor does not expect to use the work of the function in obtaining audit evidence.

Nothing in SAS No. 128 requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains the external auditor's decision to establish the overall audit strategy. Furthermore, the requirements in SAS No. 128 relating to using internal auditors to provide direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.

Consistent with International Standard on Auditing (ISA) 610 (Revised 2013), Using the Work of Internal Auditors, SAS No. 128 introduces the concept of a systematic and disciplined approach, which is not included in SAS No. 65. Paragraph 13 of SAS No. 128 would require, among other things, as a prerequisite to being able to use the work of the internal audit function, that the external auditor evaluate the application by the internal audit function of a systematic and disciplined approach, including quality control. Paragraphs A12–A14 of SAS No. 128 provide application guidance with regard to the evaluation of the application of a systematic and disciplined approach by the internal audit function. The ASB believes that relative to SAS No. 65, this requirement represents an additional and explicit evaluation that the external auditor is required to determine whether the work of internal auditors can be used in obtaining audit evidence.

Convergence

SAS No. 128 was developed using ISA 610 (Revised 2013) as a base. Substantive differences in objectives, definitions, or requirements between SAS No. 128 and ISA 610 (Revised 2013) are identified in the exhibit to SAS No. 128.

The ASB has made various changes to the language of the ISA in SAS No. 128 to use terms or phrases that are more commonly used in the United States and to tailor examples and guidance to be more appropriate to the U.S. environment. The ASB believes that such changes will not create differences between the application of ISA 610 (Revised 2013) and the application of SAS No. 128. Taking account of existing practice in the United States relating to use of internal auditors to provide direct assistance, the ASB made additional changes to the related ISA requirements and application material in SAS No. 128 (as described in more detail in the exhibit to SAS No. 128).

Effective Date

This Statement on Auditing Standards is effective for audits of financial statements for periods ending on or after December 15, 2014.

6. **Statement on Auditing Standards No. 129, Amendment to Statement on Auditing Standards No. 122 Section 920, Letters for Underwriters and Certain Other Requesting Parties, as Amended**

To address unintended changes to previous practice as a result of its Clarity Project, the Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 129, *Amendment to Statement on Auditing Standards No. 122 Section 920*, Letters for Underwriters and Certain Other Requesting Parties, *as Amended* (AICPA, *Professional Standards*, AU-C sec. 920).

AU-C section 920 addresses the auditor's responsibilities when engaged to issue letters (commonly referred to as *comfort letters*) to requesting parties in connection with a nonissuer entity's financial statements included in a registration statement or other securities offerings. This amendment

amends the requirement to inform the requesting party that the auditor cannot provide any assurance regarding the sufficiency of the procedures for the requesting party's purposes by changing "state in any discussion" to "communicate" so as to provide the auditor with more flexibility in making this required communication.

clarifies that the requirement for the auditor to read the comfort letter issued by component auditors whose report is included in the securities offering applies to each component auditor, not only those comfort letters related to significant components.

amends the requirement to attach the review report when the auditor states in the comfort letter that the auditor has performed a review of unaudited interim financial information to a

requirement to attach the review report when the auditor states in the comfort letter that the auditor has issued a review report on unaudited interim financial information.

amends application material to indicate that attaching the review report on unaudited interim financial information is required when the auditor states in the comfort letter that the auditor has issued a review report on unaudited interim financial information.

amends example D to change the concluding paragraph from referring to the pro forma bases described in the notes to the pro forma financial statements to referring to the applicable accounting requirements of Rule 11-02 of Regulation S-X and renumbers example D as example D-1.

adds example D-2 to address providing negative assurance on pro forma financial information as to compliance with pro forma bases as described in the pro forma financial information.

amends example O to include wording to address procedures performed with regard to pro forma information and subsequent change period not previously carried forward from AU section 634, *Letters for Underwriters and Certain Other Requesting Parties*.

makes additional editorial changes for clarity and consistency.

SAS No. 129 is effective for comfort letters issued on or after December 15, 2014. Early implementation is encouraged.

7. **OMB *Circular A-133*, 2015 Compliance Supplement**

The OMB A-133 2015 Compliance Supplement will supersede the OMB Circular A-133 Compliance Supplement issued in June 2013. **The 2015 Compliance Supplement should be available by the end of June.** Continue to check the site at http://www.whitehouse.gov/omb/circulars_default/. The 2015 *Compliance Supplement* includes two versions of part 3, one for auditing federal awards subject to the pre-Uniform Guidance circulars and one for auditing federal awards subject to the Uniform Guidance administrative requirements and cost principles. It is important that auditors not only use the *Compliance Supplement* applicable to the year under audit, but also the applicable sections of the *Compliance Supplement* based on which set of requirements apply to the federal award being audited.

8. **Standards effective in future years:**

- June 30, 2016

  - **GASB 72, *Fair Value Measurement and Application,*** Effective Date: The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an

asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

Fair Value Application

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

Effective Date

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

How the Changes in This Statement Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to

provide information to financial statement users about the impact of fair value measurements on a government's financial position.

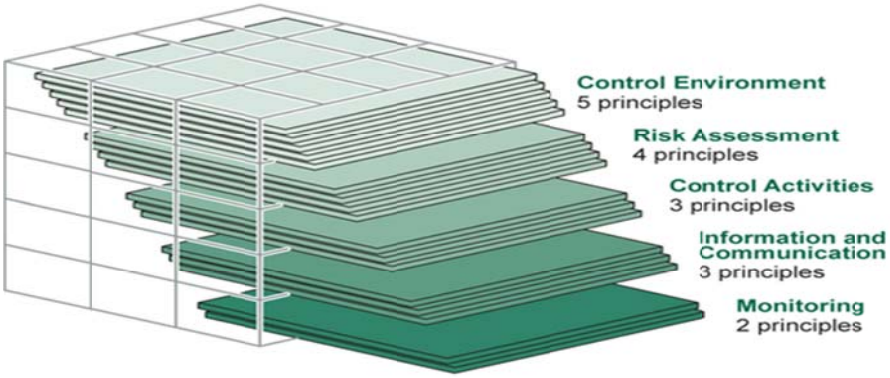
9. **GAO Green Book, *Standards for Internal Control in the Federal Government*,** http://www.gao.gov/assets/670/665712.pdf

Standards for Internal Control in the Federal Government (the "Green Book"), sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

An entity uses the Green Book to help achieve its objectives related to operations, reporting, and compliance.

Source: GAO. | GAO-14-704G

The standards in the Green Book are organized by the five components of internal control shown in the cube below. Each of the five components contains several principles. Principles are the requirements of each component.



Source: GAO. | GAO-14-704G

This publication will supersede GAO/AIMD-00-21 .3.1, *Standards for Internal Control in the Federal Government*: November 1999. GAO's 2014 revision will be **effective beginning with fiscal year 2016 (for federal agencies)** and the FMFIA reports covering that year. Management, at its discretion, **may elect early adoption** of the 2014 Green Book.

For Tennessee local governments, the principles of the Green Book will be incorporated into the internal control guide currently being developed and local governments must have written and placed in operation internal controls at June 30, 2016 (Section 9-18-102, *Tennessee Code Annotated*.

APPENDIX C

AUDIT PROCEDURES

1. Centralized Cafeteria Procedures

Procedures for Centralized Cafeteria Systems

The Division of Local Government Audit has established certain additional audit procedures for centralized cafeteria systems of county school systems and special school districts that are audited by the Division of Local Government Audit. These additional procedures must be performed by certified public accountants who have contracted to audit the internal school funds of an applicable special school district or county school system. These additional procedures include many procedures that must be performed while school is in session to ensure compliance with federal and state regulations. Therefore, the audits should be contracted early enough to allow adequate time for planning and performing the additional cafeteria procedures.

A separate report on these procedures is not required; however, an auditor from the Division of Local Government Audit will review the supporting audit documentation for these procedures to determine that sufficient work was performed and adequately documented. The supporting audit documentation should be completed and available for review by the audit staff of the Division of Local Government Audit no later than September 30 of each year unless prior arrangements are made with the Division of Local Government Audit. The Division of Local Government Audit is the principal auditor for centralized cafeteria systems and will rely on the work performed by the certified public accountant at the individual schools as a basis for its opinion.

The additional procedures are to be performed at the schools selected for physical observation in procedure No. 1 below. However, if the certified public accountant becomes aware that the scope should be expanded to include all schools in the system, the auditor should immediately contact the Division of Local Government Audit. The following are audit procedures for centralized cafeteria systems:

1. Prior to the end of the school year, physically observe (on a sample basis of schools) meal counts, cash collections, and internal controls during the year under audit. At least 25 percent of the total schools in the system must be included in this sample on a yearly rotation basis. At the same time the internal control questionnaire is filled out; prepare a short summary of daily operations as stated by the cafeteria manager. Compare the cafeteria manager's responses with your observations and review of internal controls. Prepare a list of all internal control weaknesses noted and recommendations for improvement.

2. Determine that "collection procedures" submitted annually to the Tennessee Department of Education are implemented properly. Auditors should determine that an actual meal count for reimbursable meals is taken at the point of service. Determine that reimbursable meal counts are accurate and that supplemental sales (a la carte) are not included in the reimbursable meal counts. Verify that the procedures established are in effect.

3. If the individual school maintains a bank account for cafeteria funds, perform standard bank account reconciliation procedures and confirm balances as of June 30 by written communication or other available documentation.

4. On a sample basis, foot and extend daily collection reports, if the reports are prepared manually. Investigate any differences noted.

5. If collections are made in the classroom, trace classroom teacher reports on a sample basis to amounts reported on daily collection reports of the cafeteria manager. Investigate any differences noted.

6. Review frequency of bank deposits, and determine compliance with the three-day deposit requirement. Compare bank deposits with cash collections on a monthly basis. Investigate any differences noted. If deposits are made directly to an outside bank account, such as the county trustee's account, it will be necessary to trace to those records.

7. For the whole year, prepare a schedule of receipts by source from collection reports. Trace cash collections per these schedules to cash receipt records of the centralized cafeteria fund. Investigate any differences noted.

8. Review collection reports for the manner of recording number of children served by meal (lunch, breakfast, and snack) according to eligibility (free, reduced, full pay) to determine if these numbers are used in the report that is consolidated at the central office level and then submitted to the state as part of the monthly Claim for Reimbursement.

9. Check the approved applications to ensure that there are a sufficient number on hand to support the reported free and reduced-price meals served. (Note: Applications may contain the name of more than one child.)

10. The cafeteria system is required by USDA to verify a percentage of free and reduced-price applications. Review the procedures used by the system and determine that the system maintains the records required to document its verification procedure as follows:

    a. Summary of verification efforts (to include total number of applications on file October 1 and the percentage or number of applications verified)
    b. Copies of all correspondence with the household selected

c. Documentation or proof of benefit eligibility
d. Report of verification results on each household selected for verification

11. For the whole fiscal year, prepare a schedule of the number of meals sold to children and adults as reported on daily collection reports and reconcile potential cash collections from such sales to receipts as determined from procedure No. 8. Investigate any differences noted. Discuss with the director of schools and state auditors any unusual variances detected as a result of the procedure.

12. If a bank account is maintained, determine that all checks are made payable to the central office. Note any exceptions.

13. Observe and test compliance with the USDA minimum meal pattern requirements for food components. Review menu and production records to determine that required components and food items were planned and offered. Document any noncompliance noted.

14. Document food supply inventory management procedures and test procedures in place to properly account for and safeguard food receipts, usage, and inventory. Document any deficiencies with inventory management and control practices.

2. Municipal and Charter School Cafeteria Procedures

Procedures for Centralized Municipal Systems and Charter School Systems

Auditors should develop an individualized audit program to meet the audit objectives for a municipal school system's or charter school system's centralized cafeteria operations. The procedures required for centralized county school systems should be considered when developing the audit program.

3. Audit Considerations - State of Tennessee Subrecipient Contracts

State Subrecipient Contracts

In auditing subrecipient funds received from the State of Tennessee that are subject to audit, the auditor should become familiar with the program and the related requirements of the state department funding the program. The following list represents points of interest the auditor should consider in preparing the audit program for state subrecipient funds.

1. Program funds (subrecipient contracts, loans, commodities, etc.) received from the state may include both state and federal dollars. The federal portion does not lose its identity simply because it flows through the state; therefore, federal funds should be audited in accordance with the applicable OMB requirements.

2. A portion of state dollars disbursed may represent matching funds. These funds are governed by the same requirements as the related federal program.

3. In-kind contributions may or may not be allowable as the entity's matching share for a program.

4. Calculations for determining matching shares may vary between contracts, and different rates for different cost categories may be applicable for a single contract.

5. Indirect cost allocation plans must be approved by the grantor.

6. Most subrecipient agreements require the entity's accounting system to provide for separate and identifiable account balances for each contract with subsidiary ledgers for each project within a contract. Grantor reports should agree with these accounts.

7. One entity may apply for subrecipient funds, but another entity may ultimately use the funds (pass-through funds). The entity that applies for the funds is responsible for ensuring the funds are used in compliance with grantor guidelines. The entity should report these funds in accordance with applicable accounting guidelines.

8. The following compliance attributes should be considered for each subrecipient expenditure item in the audit sample and for each subrecipient contract in the sample of subrecipient contracts selected for specific compliance testing.

    (a) Are expenditures necessary and reasonable for the proper administration of the contract?

    (b) Do expenditures conform to limitations or exclusions in the contract?

(c) Was consistent accounting treatment applied for expenditures of all the recipient's activities?

(d) Were expenditures net of applicable credits?

(e) Were costs correctly allocated to a particular award?

(f) Were expenditures correctly recorded and supported by source documentation?

(g) Were expenditures approved in advance, if subject to prior approval?

(h) Were expenditures in accordance with competitive purchasing procedures, if applicable?

(i) Were expenditures allocated equitably to contracts and other activities in accordance with the relative benefits received?

APPENDIX D

LAWS, REGULATIONS, AND ATTORNEY GENERAL OPINIONS

1. Selected State Laws Affecting Counties

Counties must comply with federal, state, local laws and regulations, grant requirements, and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both qualitative and quantitative aspects must be considered. No one source summarizes all applicable laws and regulations. The following list of references should only be used as a guideline in determining which state laws affect a county and should not be considered a comprehensive list. These references do not necessarily represent the most significant laws, but represent areas in which recurring questions have arisen.

Selected Tennessee Code Annotated references for Counties

Audits and Other Regulatory Reporting to Local Government Audit

Section 4-3-301 - 304	General audit requirement
Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 5-8-505 & 67-5-1902	County officials are to file an annual financial report. Fiscal year end requirement of June 30
Section 8-4-109	Audits of governmental entities, Comptroller authorized
Section 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 9-3-206	Comptroller to have access to all books and records
Section 9-3-211	Annual audits required
Section 9-3-401 et. seq.	Local Government Modernization Act of 2005/Audit Committees
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-119	Electronic Transactions Pre-Implementation Statement and Post-Implementation Review

Criminal Statutes

Section 18-2-105	Clerks of court - embezzlement
Section 39-14-103	Theft of property
Section 39-14-130	Destruction of valuable papers with intent to defraud

Criminal Statutes (continued)

Section 39-16-401	Definitions of public misconduct
Section 39-16-402	Official misconduct
Section 39-16-403	Official oppression
Section 39-16-501	Definitions for interference with government operations
Section 39-16-504	Destruction of and tampering with governmental records
Section 40-15-105(a) and 40-35-313(a)	Public officials and appointed officials ineligible for pretrial diversion or probation for criminal offences committed in their official capacity or that involve the duties of their office.

Books and Records

Section 5-8-501	Uniform Accounting System, including Chart of Accounts
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-2-138	Administrative officers are required to reconcile the fund accounts with the trustee's cash balance
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)

Budgeting and Purchasing

Section 5-8-107	Revenues to be appropriated for expenditure by County Commission
Section 5-8-507	Publication of annual operating budget
Section 5-9-109	Contributions to nonprofit charitable organizations (***GO TO DETAILED REGULATONS – APP.D-8***)
Section 5-9-401	The County Commission must appropriate all funds
Section 5-9-404	Continuation Budgets
Section 5-9-407	Budget amendments
Section 5-12-101	Fiscal Control Act of 1957 – Budgeting
Section 5-14-101	Fiscal Control Act of 1957 – Purchasing
Section 5-14-201	Purchasing Law of 1983
Section 5-21-101	Financial Management System of 1981
Section 12-2-421	Purchasing at public auctions
Section 12-2-501	Negotiated sale of surplus property
Section 12-3-part 3 (Public Chapter 457. 109th General Assembly)	Entities with central purchasing system can increase their bid limit to $25,000
Section 12-3-1201	Purchasing under state contracts
Section 12-3-1202	Purchasing used/second-hand goods from private individuals
Section 12-3-1203	Purchasing through another local government's contract
Section 12-3-1205	Out-of-state and regional purchasing cooperatives
Section 12-3-1208	Competitive Reverse Auction Process

Budgeting and Purchasing (continued)

Section 12-3-1209	Contracts with professional persons
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-107	Contracts for professional services - engineering
Section 49-2-203	General School Law
Section 54-7-113	Uniform Road Law
Section 62-2-107	Architect needed for construction projects exceeding $50,000

Electronic Commerce

Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 5-21-116(c)	Approval of mechanical check signing machine (applies only to the Financial Management System Act of 1981
Section 5-21-130	Sale of surplus, unusable or obsolete equipment on an internet site (applies only to the Financial Management System Act of 1981)
Section 9-1-108	Acceptance of credit cards
Section 10-7-123	Electronic access to county information
Section 62-6-119	Electronic bid documents

Bonds

Section 4-4-108	Blanket Surety Bond Required
Section 5-6-109	Bond of County Executive
Section 8-8-103	Bond of Sheriff
Section 8-11-103	Bond of Trustee
Section 8-13-103	Bond of Register
Section 8-19-102	Bonds to be filed with County Clerk
Section 8-19-103	Bonds to be recorded in the Register's Office
Section 8-19-106	County to pay the premiums on the official's bonds
Section 54-4-103	Bond of Highway Administrator
Section 67-1-505	Bond of Assessor of Property

County Commission

Section 5-1-104	Vacancies on the County Commission must be filled within 120 days
Section 5-5-102	County employee may serve on County Commission
Section 5-5-107	Compensation of County Commission
Section 49-2-101	Powers and duties of County Commission concerning School Department

County Monies

Sections 5-8-201 & 9-1-107	Escrow coverage
Section 5-8-207	Three day deposit law. Requires every constitutional officer handling public funds to maintain an official bank account. Also requires that all funds be disbursed by prenumbered check.
Section 5-8-210	Checking System
Sections 5-8-301 & 9-4-107	Investment of idle funds
Section 9-1-109	Penalty for worthless checks/money orders
Section 9-2-103	Official receipts required
Section 9-2-104	Official receipts to be prenumbered

County Officials

Section 8-20-101	Hiring of deputies – letter of agreement or salary decree required
Section 8-21-401	Authorized fees – Circuit and General Sessions
Section 8-21-601	Authorized fees – Clerk and Master
Section 8-21-701	Authorized fees – County Clerk
Section 8-21-801	Special Commissioners
Section 8-21-901	Authorized fees – Sheriff
Section 8-21-1001	Authorized fees – Register
Section 8-22-101	Clerks and county officials deprived of fees when salaries are paid by the county
Section 8-22-103	Excess fees are property of the county
Section 8-22-104	Remittance of excess fees to county
Section 8-24-102	Compensation of county officials, except schools
Section 12-4-101	Conflict of interest statute
Section 16-15-5003	Salary of the General Sessions Judge
Section 66-29-101	Unclaimed funds

Clerks of Courts (also see County Officials)

Section 8-21-801	Special commissioner fees
Section 18-2-101	Receipts and disbursements to be posted to dockets
Section 18-2-103	Docket trial balance
Section 18-4-103	Circuit Court Clerk's duty to file for court costs in state cases
Section 18-6-108	Probate of instruments
Section 20-12-141	Payments to clerks – costs
Section 40-24-105	Lump sum partial payment in full settlement of case balance
Section 55-10-207	Electronic citation fees – special revenue fund

Debt

Section 7-51-904	County Commission approval required for all leases and installment purchase contract requirements

Debt (continued)

Section 9-21 et seq.	Debt – bonds, notes, loans
Section 9-21-134	Approval of Comptroller's Office required for issuance of balloon indebtedness

Highway Departments

Section 54-7-101 et seq.	Uniform road law
Section 54-7-107	Chief administrative officer to name interim successor
Section 54-7-112	Annual listing of highway equipment inventory to be filed with County Mayor and County Commission by September. Also requires equipment to be plainly marked and numbered.
Section 54-7-113	Highway purchasing law
Section 54-7-202	Use of county owned equipment, tools, and materials for private purposes prohibited
Section 54-7-203	Personal financial interests prohibited
Section 54-10-103	Designation of county roads. Requires an annual listing of county roads to be approved by the County Commission at their January meeting.

Sheriff and Drug Control Funds

Section 8-4-115	Fingerprint law requirements
Section 18-1-206	Disposal of physical evidence
Section 39-11-713	Disposal of forfeited property
Section 39-16-609	Failure to appear
Section 39-17-420	Drug control fines and forfeitures, allowed uses of drug funds, Comptroller's guidelines must be followed for confidential expenditures, fingerprinting equipment.
Section 39-17-428	Mandatory minimum fines – allocation of proceeds
Section 39-17-505	Possession of gambling device or record – forfeiture
Section 39-17-1317	Confiscation and disposal of confiscated weapons
Section 40-7-122	Jail booking fee
Section 41-2-129	Work release program requirements
Section 41-12-101	Regional Jail Authority Act
Section 53-11-201	Procedure in confiscation, sale of seized property
Section 53-11-415	Special revenue fund required for drug fund
Section 57-9-202	Procedures for seizing contraband

Taxes

Section 67-1-801	Interest and penalty on delinquent taxes
Section 67-4-101	Privileges taxable
Section 67-4-602	Litigation tax
Section 67-4-719	Business tax collections - county clerk should issued distress warrants for delinquent business taxes
Section 67-5-510	Setting of property tax rate
Section 67-5-701	Tax Relief
Section 67-5-705	Property tax freeze act
Section 67-5-1801	Trustee shall not accept current taxes when delinquent taxes are due except in bankruptcy or dispute. Trustees may accept partial payments of property taxes if they have an approved plan.
Section 67-5-1804	Discount for early payment of property taxes
Section 67-5-1805	Payment of taxes by part owner
Section 67-5-1806	County barred from collecting delinquent property taxes after 10 years
Section 67-5-2004	Requires the delivery of delinquent taxes to Chancery or Circuit Court. List must be delivered to the delinquent tax attorney between February 1 and April 1.
Section 67-5-2010	Interest and penalty on property taxes
Section 67-5-2403	Clerk must provide the trustee with a listing of delinquent taxpayers between June 1 and July 1
Section 67-6-712	At least 50 percent of the local option sales tax must be used for school purposes
Section 67-7-110(b)	Distribution of coal severance tax – 50% to schools and 50% to highways
Section 67-7-201	Mineral severance tax – to highways

Trustee

Section 8-11-104	Duties of trustee
Section 8-11-110	Trustee's commission – general
Section 49-3-358	Trustee's commission on state education funds
Section 49-3-315	ADA adjustments by trustee
Section 67-5-1808	Trustee may accept partial payments of property taxes

School Departments

Section 49-2-110	School activity funds
Section 49-2-112	School audits
Section 49-2-113	Approval of use of mechanical check-signing equipment. Requires filing of remote access statement
Section 49-2-203	Board of Education – duties

School Departments (continued)

Section 49-2-301	Director of Schools
Section 49-2-601et seq	School support organizations (PTOs, booster clubs, etc.)
Section 49-3- et seq	School debt issues
Section 49-3-351	BEP Formula
Section 49-3-1003	ADA split of school debt proceeds
Section 49-3-1005	No ADA split required if debt repaid from outside tax rate
Section 49-5-408	Teachers required to have a contract
Section 49-6-815	School Resource Officers
Section 49-6-2003	Teacher conflicts of interest
Section 49-6-2007	Sale of surplus school property
Section 49-6-2007	Donation of Surplus Computers to Low Income Families
Section 49-6-2109	Advertising on School Buses
Section 49-13-101 et seq	Charter Schools
Section 57-4-306	Mixed drink tax allocation from municipality

Other

Section 8-44-101	Sunshine Law – Policy
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized. (***GO TO SUMMARY – APP.D-9***)
Section 10-7-503	Records open to public inspection
Section 68-211-874	Landfills and incinerator operations must be accounted for in an enterprise fund. Other solid waste activities must be accounted for in either an enterprise fund or a special revenue fund, unless specifically prohibited by GAAP. Where GAAP prohibits use of a special revenue or enterprise fund, the solid waste activities shall be accounted for as a department of the general fund.
Section 68-221-1012	Reporting water loss to the Water and Wastewater Financing Board

2. County Donations to Nonprofit Organizations

Section 5-9-109, *Tennessee Code Annotated*, authorizes a county's governing body to appropriate funds for the financial aid of any nonprofit charitable organization, any chamber of commerce, exempt from taxation pursuant to the Internal Revenue Code of 1954, Section 501 (c) (6), as amended, or any nonprofit civic organization under guidelines required by subsection (b) of this statute. The auditor should consider the following items when determining whether a county has complied with this law.

1. A county may appropriate funds for only those nonprofit charitable organizations that promotes the general welfare of the residents of the county, or any nonprofit civic organization classified under Section 501(c)(4) or (c)(6) of the Internal Revenue Code working for the purpose of bringing about civic betterments, and social improvement through efforts to maintain and increase employment opportunities in the county.

2. The legislative body is required at a minimum to have a separate section of the appropriating resolution of the budget document which shall include the following: (1) the name of each nonprofit organization, (2) the specific amount appropriated to that organization.

3. The county shall devise guidelines directing for what purposes the appropriated money may be spent.

4. The payments to these organizations shall not exceed the amount appropriated to each organization.

5. Each organization receiving financial assistance shall file a copy of the annual audit or in lieu of an audit report an annual report of its business affairs and transactions.

6. For appropriations to nonprofit civic organizations, notices shall be published in a newspaper of general circulation in the county of the intent to make an appropriation, specifying the intended amount and purpose.

3. State Funding Board's Guidelines on Interest Rate and Forward Purchase Agreements

As directed by 9-21-130, *Tennessee Code Annotated,* the revised Guidelines were effective November 1, 2009.

Summary of Guidelines

- Require adoption of debt management and derivative policies
- Require financial statements with a clean audit opinion
- Require independence of advisors and counsel
- Require avoidance of conflicts of interest among third party professionals involved in the transactions
- Specify staff and required knowledge
- Impose ongoing reporting for Interest Rate and Forward Purchase Agreement transactions

Additional information regarding these Guidelines can be found on the web at: http://www.comptroller.tn.gov/sl/lfstfundbd.asp .

3a. Guidelines for Closing the Books

For purposes of implementing the requirement of Section 9-2-102, *Tennessee Code Annotated*, "closing the books" refers to journal entries to close an accounting cycle and prepare the records for a new accounting cycle. These journal entries include, but are not limited to, entries to post amounts for year-end receivables, payables, deferred outflows, deferred inflows, capital assets, and accumulated depreciation; plus entries to rid or transfer the amounts from the temporary ledgers for revenues and expenditures/expenses to the permanent records for fund balances/net position. The term "closing the books" does not include some entries required to convert the fund accounting statements to the government-wide financial statements.

4. Selected State Laws Affecting Municipalities

Municipalities must comply with federal, state, and local laws and regulations and charter and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both quantitative and qualitative aspects must be considered. No one source summarizes all the applicable laws and regulations. The following list of references should be used only as a guideline in determining which state laws affect the municipality and should not be considered a comprehensive list of compliance features. These references do not necessarily represent the most significant laws, but represent areas in which recurring questions have arisen.

Many municipalities have "Private Act" charters. The Private Acts of the State of Tennessee should be reviewed for these municipalities to assess compliance requirements.

Selected *Tennessee Code Annotated* References for Municipalities

Charters

Section 6-1-101	Mayor - Alderman
Section 6-18-101	City Manager - Commission
Section 6-30-101	Modified City Manager - Council

Books and Records

Section 6-56-201	Municipal budget law of 1982
Section 8-44-104	Minutes required, open for public inspection
Section 9-2-102	Uniform accounting system
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-2-103 – 104	Consecutively prenumbered receipts required
Section 9-2-106	Violation of receipt requirements is a Class C misdemeanor
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Section 39-14-130	Destruction of valuable papers with intent to defraud
Section 39-16-504	Destruction of and tampering with governmental records
Section 66-29-113	Reporting abandoned property

Audits and Other Regulatory Reporting to Local Government Audit

Section 4-30-101	Local Government Electronic Technology Act of 2009
Section 6-54-903	Travel Policies – Filing Requirements
Section 6-56-105	Audits of municipalities
Section 8-4-109	Audits of governmental entities, Comptroller authorized
Section 8-4-115	Audit of Standardized Booking Procedures
Section 8-4-501 – 505	Local Government Instances of Fraud Reporting Act

Audits and Other Regulatory Reporting to Local Government Audit (continued)

Section 9-3-212	Duty to order and pay for audits
Section 9-3-405	Audit Committees
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations
Section 54-4-203	Request to combine State Street Aid with General Fund
Section 68-221-1012	Reporting water loss

Taxes

Section 6-55-101	Collection and payment of tax
Section 6-55-201	Sale of real estate for delinquency
Section 6-55-301	Privilege tax
Section 8-21-107	Payment (receipt) of fees, fines, costs, etc. by credit card
Section 9-1-108	Collection of taxes with credit or debit card
Section 57-4-306	Mixed drink tax allocation of funds
Section 67-5-2005	Delinquent municipal real property tax certified to county trustees
Section 67-5-2404	Delivery of delinquent tax list to attorney

Purchasing

Section 6-54-107	Officers' interest in municipal contracts prohibited
Section 6-56-301	Municipal purchasing law
Section 12-2-407	Sale of surplus property to governmental entities and not-for-profit corporations
Section 12-3-1201	Purchases for local governmental units (by department of general services)
Section 12-3-1209	Contracts with professional persons
Section 12-4-101	Personal interest of officers prohibited
Section 12-4-107	Contracts for professional services - engineering
Section 39-16-105	Buying and selling in regard to offices held or elected to

Investing and Banking

Section 6-56-106	Authorized investments
Section 6-56-110	Deposits to be secured by collateral
Section 9-1-107	Investments–deposits exceeding insurance limits
Section 9-4-101	Collateral

Debt

Section 9-21-408	Interfund loans
Section 9-21-601	Capital outlay notes
Section 9-21-903	Refunding bond issues

Disbursements

Section 6-54-111	Appropriation of funds for nonprofit organizations (***GO TO LAW SUMMARY – APP.D-15***)
Section 6-54-901	Reimbursement for expenses incident to holding office
Section 6-56-111	Deposit within three working days–petty cash fund
Section 6-56-111(c)	Use of consecutively prenumbered checks
Section 6-56-112	Expenditures for lawful municipal purpose
Section 54-4-204	State street aid: Purposes for expending funds; Accounting

Deficits and Unaccounted for Water

Section 68-221-1010	Report filed with Water and Wastewater Financing Board
Section 68-221-1012	Unaccounted for water

Landfills/Solid Waste

Section 68-211-835(g)	Solid Waste Disposal Fees
Section 68-211-874	Accounting

Municipal Utilities

Section 7-34-115	Disposition of revenue
Section 7-35-401	Sewers and waterworks–authority granted
Section 7-39-302	Municipal gas companies
Section 7-52-101	Municipal electric plant law
Section 7-52-401	Telecommunications Services
Section 7-52-601	Cable Television, Internet and Related Services
Sections 7-39-404, 7-52-118, 7-52-304, 7-52-404, and 7-52-606	In-lieu of tax payments

Police and City Courts

Section 8-4-115	Standardized procedures for booking of arrestees
Section 18-1-105	Court Clerk – Duties
Section 18-1-206	Disposal of physical evidence
Section 39-16-609	Failure to appear

Police and City Courts (continued)

Section 39-17-420	Drug control fines and forfeitures, allowed use of drug funds, Comptroller's guidelines must be followed for confidential expenditures–fingerprinting equipment
Section 39-17-428	Mandatory minimum fines–allocation of proceeds
Section 39-17-505	Possession of gambling device or record–forfeiture
Section 39-17-1317	Confiscation and disposition of confiscated weapons
Section 39-17-1318	New serial numbers for confiscated firearms
Section 40-33-201	Application (procedures in confiscation – general)
Section 40-35-313	Expungement from official records
Section 53-11-201	Procedure in confiscation
Section 53-11-204	Disposition of proceeds
Section 53-11-415	Special revenue account for drug fund
Section 53-11-451	Goods subject to forfeiture –seizure–disposition
Section 55-8-198	Citations based on surveillance cameras
Section 55-10-204	Illegal cancellation of traffic citations
Section 55-10-207	Electronic citation fees – special revenue fund
Section 55-10-208	Uniform traffic citation form
Section 55-10-303	Disposition of collections
Section 55-10-306	Record of traffic cases–report of convictions to department
Section 55-10-403	Forfeiture of vehicles (DUI)
Section 55-16-101	Report of unclaimed vehicles
Section 55-50-502	Suspension of licenses
Section 55-50-503	Surrender of license

Criminal Statutes

Section 39-11-106	Definitions (criminal offenses)
Section 39-14-104	Theft of services
Section 39-16-401	Definitions for public misconduct offenses
Section 39-16-402	Official misconduct
Section 39-16-403	Official oppression
Section 39-16-501	Definitions for interference with government operations offenses
Section 39-16-503	Tampering with or fabricating evidence
Section 40-39-201	Tennessee Sexual Offender and Violent Sexual Offender Registration, Verification and Tracking Act of 2004

Other

Section 4-4-108	Blanket surety bond required
Section 6-21-104 - 105	Surety bond required – City Manager-Commissioner Charter
Section 6-35-411	Surety bond required – Modified City Manager-Council Charter

Other (continued)

Section 6-51-121	Recording of annexation ordinance or resolution by annexing municipality
Section 6-56-401 et al	Municipal Finance Officer Certification and Education Act of 2007
Section 6-56-407	Penalty for noncompliance with Municipal Finance Officer Certification and Education Act of 2007
Section 8-44-101	Sunshine Law – Policy
Section 8-44-102	Open meetings
Section 8-44-103	Notice of public meetings
Section 9-1-109	Penalty for worthless checks/money orders
Section 9-3-504	Pension Funding Policies
Section 9-21-130	Guidelines and rules and regulations relating to contracts and agreements authorized. (***GO TO SUMMARY – APP.D-9***)
Section 10-7-503	Records open to public inspection
Sections 6-54-107 & 12-4-101	Conflict of interest
Section 62-2-107	Employment of licensees in public works

5. Municipal Donations to Nonprofit Organizations

Section 6-54-111, *Tennessee Code Annotated*, as amended, authorizes a municipality's governing body to appropriate funds for the financial aid of any nonprofit charitable organization that provides year-round services benefiting the general welfare of the residents of the municipality or any nonprofit civic organization working to maintain and increase employment opportunities in the municipality. This section also provides for the Comptroller of the Treasury to establish standard procedures to assist the municipal governing body in the disposition of funds so appropriated. The auditor should consider whether the municipality has complied with the following laws and rules:

1. A municipality may appropriate funds for only those nonprofit charitable organizations that provide year-round services benefiting the general welfare of the residents of the municipality, or any nonprofit civic organization classified under Sections 501(c)(4) or (6) of the Internal Revenue Code working to maintain and increase employment opportunities in the municipality.

2. Municipal payments to nonprofit organizations shall be limited to the amounts appropriated for such purposes and in keeping with the municipality's guidelines for how the appropriated funds may be spent.

3. The municipality shall require that each nonprofit organization receiving financial assistance from the municipality file with the disbursing official of the municipality a copy of an annual audit* of its business affairs and transactions and the proposed use of the contributed funds.

4. For appropriations to nonprofit civic organizations, notices shall be published in a newspaper of general circulation in the municipality of the intent to make an appropriation, specifying the intended amount and purpose.

* Attorney General Opinion number 91-52, addresses the requirement for an annual audit. The basis for the opinion indicates that an annual audit as used in this statute does not mean an audit conducted by an independent certified public accountant.

6. Selected State Laws Affecting Special Purpose Governments

Special purpose governments must comply with federal and state laws and regulations and contract requirements. When determining which laws and regulations have a material direct or indirect impact on the financial statements, both quantitative and qualitative aspects must be considered. No one source summarizes all the applicable laws and regulations. The following list of references should be used only as a guideline in determining which state laws affect special purpose governments and should not be considered a comprehensive list of compliance features. These references are not necessarily the most significant laws, but represent areas in which recurring questions have arisen.

Selected *Tennessee Code Annotated* References for Emergency Communication Districts
(See separate manual for additional *Tennessee Code Annotated* references)

Creation and Board Members

Section 7-86-101 et seq.	Emergency Communications District Law
Section 7-86-105	Vacancies
Section 7-86-105(b)	Number of commissioners
Section 7-86-105(d)	Compensation
Section 7-86-105(i)	Board members may not be employees
Section 7-86-314	Removal of board members

Audits and Other Regulatory Reporting to Local Government Audit

Section 7-86-113	Annual audit required
Section 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations

Debt

Section 7-86-114	Power to issue bonds, notes and other debt, subject to approval of county or municipality, except in certain cases
Section 7-86-115	Default – Liens
Section 7-86-116	Payment of bonds and interest
Section 7-86-121	Sale of bonds or notes

Financial Distress/Adverse Findings

Section 7-86-301 – 319	Tennessee Emergency Communications Board (TECB) established
Section 6-86-304(b)	TECB to act upon adverse audit findings
Section 6-86-304(d)	Financial distress - defined

Investments/Deposits

Section 7-86-122	Authorized investments in accordance with Section 5-8-301
Section 7-86-126	Deposits to be secured by collateral or on deposit with a financial institution participating in the state collateral pool

Meetings

Section 7-86-123	Financial report required at every regularly scheduled meeting
Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice
Section 8-44-104	Minutes recorded and open for public inspection
Section 9-4-101	Collateral

Purchasing/Expenses

Section 7-86-121(b)	Subject to County Purchasing Law of 1983 (Section 5-14-201)
Section 7-86-125	Required to adopt travel policy
Section 7-86-306(a)(10)	TECB to establish standards concerning acceptable uses of revenue
Section 12-3-103	Contracts for professional services

Records

Section 7-86-120	Annual budget required
Section 7-86-304(a)	Comptroller to develop uniform financial accounting system
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Section 10-7-501 – 515	Open Records law

Other

Section 7-86-102(d)	District funds are public funds and limited as to purpose

Other (continued)

Section 7-86-102(c)	Limited oversight of equipment by the Tennessee Regulatory Authority

Other (continued)

Section 7-86-108	Telephone service charges (rates, increases, disposition of charges)
Section 7-86-109	Authority to receive funds
Section 7-86-110	Service supplier to provide annual accounting of amounts billed and collected
Section 7-86-112	Duty to reduce excess telephone service charge rate
Section 7-86-119	Surety bonds required
Section 7-86-205	Dispatcher training required within six months of hire date
Section 9-3-504	Pension Funding Policies
Section 12-4-101	Conflict of interest
Section 66-29-101	Unclaimed property

Selected *Tennessee Code Annotated* References for Housing Authorities

Creation and Commissioners

Section 13-20-101 et al.	Housing Authorities Law
Section 13-20-103	Meetings and residence of commissioners
Section 13-20-408	Number, qualifications, vacancies and compensation of commissioners – City Housing Authorities
Section 13-20-507	Number, qualification, vacancies – County and Regional Housing Authorities
Section 13-20-408	Board members may not be city officials

Debt

Section 13-20-601 - 614.	Types, issuance, remedies, etc.

Investing and Banking

Section 9-1-107	Investments – deposits exceeding insurance limits
Section 9-4-101	Collateral
Section 13-20-104(a)(25).	Authority to invest funds in property or securities that savings banks may invest in
Section 45-2-620	Does not provide for deposits/investments in credit unions
Section 45-3-601	Authorized investments
Section 45-14-104(c)	Savings banks authorized to invest in same manner as associations in Chapter 3 of this Title

Audits and Other Regulatory Reporting to Local Government Audit

Section 9-3-212 – 213	Audit required and to be submitted to Comptroller
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)

Other

Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-3-504	Pension Funding Policies
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Section 13-20-105, 13-20-108 & 29-17-501 – 504	Eminent domain
Section 13-20-410 & 12-4-101 – 102	Conflict of interest

Other (continued)

Section 13-20-412	Report to be filed with municipality at least annually
Section 66-29-101	Unclaimed property
Section 13-20-102	Authority to develop project with a LLC or partnership

Selected *Tennessee Code Annotated* References for Utility Districts

Commissioners

Section 7-82-307	Vacancies
Section 7-82-308	Compensation
Section 7-82-308	Qualifications
Section 7-82-602	Number of commissioners

Audits and Other Regulatory Reporting to Local Government Audit

Section 7-82-309	Expense reimbursement policy, file with comptroller
Section 7-82-401	Annual audit required
Section 8-4-501 – 505	Local Government Instances of Fraud Reporting Act
Section 12-9-101 – 112	Local Government Joint Venture Entity Reporting (see Section K of this manual for additional information)
Section 47-10-101 – 103	Uniform Electronic Transactions (audit contract and audit report)
Section 47-10-119	Filing of pre-implementation statement and post-implementation review for electronic business systems that provide for electronic records of signatures and/or authorizations

Debt

Section 7-82-501	Issuance of bonds or notes: review by director of local finance
Sections 7-82-501–507	Bonds and notes

Financial Distress/Unaccounted for Water Loss

Section 7-82-401	Accounting manual
Sections 7-82-701–706	Utility Management Review Board
Section 7-82-401(h) & 68-221-1012(b)	Unaccounted for water loss

Investments

Section 7-82-108	Types authorized–to be secured
Section 9-4-103	Eligible collateral
Section 9-1-107	Depositories

Meetings

Section 7-82-308	Required meetings
Section 7-82-308	Time and place published

Meetings (continued)

Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice

Records

Section 7-82-308	**Minutes**
Section 7-82-401	Audit–accounting manual–books and records
Section 7-82-401	Publishing financial statements & travel expenses
Section 8-44-104	Minutes open for public inspection
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)

Other

Section 7-82-113	Expenditures must be for a lawful district purpose
Section 7-82-307(b)(1)(B)	Petitioner(s) to remove commissions to file $350 bond
Section 7-82-402	Telephone listing, office address
Section 7-82-403	Rates
Section 7-82-801	Purchasing policy
Section 9-3-504	Pension Funding Policies
Section 12-4-101	Conflict of interest
Section 62-2-107	Employment of licensees in public works
Section 66-29-101	Unclaimed property
Section 68-221-904	Operators–certified

Selected *Tennessee Code Annotated* References for Public Charter Schools

Creation & Governing Body

Section 49-13-101 et al.	Tennessee Public Charter Schools Act of 2002
Section 49-13-109	Parent representative on governing body
Section 49-13-111(o)	Annual training class required

Audits and Other Regulatory Reporting to Local Government Audit

Section 8-5-501 – 505	Local Government Instances of Fraud Reporting Act
Section 49-13-111(j) & 49-13-127	Audit required and to be submitted to Comptroller

Books and Records

Section 8-44-104	Minutes recorded and open for public inspection
8-44-103	Adequate public notice
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-4-101	Collateral
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Section 49-13-111(m)	Generally accepted accounting principles, uniform chart of accounts

Purchasing

Section 49-13-111(e)	Bids required on purchases in excess of $10,000
Section 49-13-119 & 8-27-301 – 309	Participation in group health insurance plans
Section 49-13-136	Use of capital outlay funds

Debt

Section 49-13-124	Authority to issue debt

Other

Section 9-4-103	Eligible collateral
Section 9-1-107	Depositories
Section 49-13-111(g) & Section 12-4-101 – 102	Conflict of interest
Section 49-13-111(h), 49-13-138 & 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice

Other (continued)

Section 49-13-111(l)	Fiscal year end June 30
Section 49-13-111(n) & 8-19-101	Surety bonds required
Section 49-13-120	Annual report to sponsor required
Section 49-13-139	Requirements for web site

Selected *Tennessee Code Annotated* References for Other Special Purpose Governments

Audits and Other Regulatory Reporting to Local Government Audit

Section 8-5-501 – 505	Local Government Instances of Fraud Reporting Act
Section 9-3-212	Audit required and to be submitted to Comptroller

General Laws

Section 8-44-101	Sunshine Law
Section 8-44-103	Adequate public notice
Section 9-1-107	Depositories
Section 9-2-102	Books closed within two (2) months after fiscal year end (***GO TO DETAILED GUIDANCE – APP.D-9***)
Section 9-3-212 – 213	Audit required and to be submitted to Comptroller
Section 9-3-504	Pension Funding Policies
Section 9-4-103	Eligible collateral
Section 9-18-102(a)	Government to establish internal controls (effective 6-30-2016)
Section 10-7-501 – 515	Open Records law
Section 12-4-101	Conflict of interest
Section 66-29-101	Unclaimed property

Entity Specific Laws

Section 13-26-101 et al	Human Resource Agency Act of 1973
Section 7-53-101 et al	Industrial Development Corporations
Section 7-87-101 et al & 7-5-101 et al	Port Authority Act & Metropolitan Governments' Port Authority Act
Section 13-14-101 et al	Development District Act of 1965
Section 7-67-103 et al	Sports Authority Act of 1993
Section 7-69-101 et al	Tourism Development Authority Act
Title 64	Regional Authorities

7. Selected Attorney General Opinions

The State Attorney General issues written legal opinions to certain state officials upon request. The Attorney General is required to provide written legal opinions to "the governor, secretary of state, state treasurer, comptroller of the treasury, members of the general assembly and other state officials...in the discharge of their official duties." 8-6-109 (b)(6), *Tennessee Code Annotated*.

The following is a summary of select opinions of interest;

Books and Records

Date	Opinion Number	Description
08/16/89	89-102	Accounting and auditing standards for local housing authorities
11/28/89	U89-134	Vending machines and pay telephone operations
08/13/90	U90-114	Application of open meetings act to city council interviews with applicants for city manager position
12/23/91	U91-164	Publication of official notices

Audit

Date	Opinion Number	Description
05/29/91	91-52	Filing annual audit under Section 6-54-111(c), *Tennessee Code Annotated*

Bids

Date	Opinion Number	Description
08/23/13	13-065	Requirement for local governments to seek competitive bids for liability insurance

Disbursements

Date	Opinion Number	Description
11/04/80	None	In-lieu-of-tax payments by a municipality's wholly-owned utility
10/27/88	88-194	Use of state street aid funds at the intersection

		of a state highway and a municipal street
11/09/89	U89-130	Providing municipal services to residents on a private street
02/06/90	90-12	Spouse travel expenses
10/12/90	U90-149	Donations to nonprofit charitable and civic organizations

Disbursements (Continued)

09/01/92	U92-100	Municipal utilities and utility revenues
03/04/92	93-18	Loan by municipality to county industrial development corporation
06/11/93	U93-63	Conflict of interest/employee serving as mayor
04/08/94	U94-070	Installation of water lines in a private development
03/06/95	U95-021	Municipality's authority to engage in development of a residential subdivision

Police and City Courts

Date	Opinion Number	Description
11/01/88	88-195	Disposition of confiscated weapons, Section 39-6-1708, *Tennessee Code Annotated*
10/22/90	90-98	Law enforcement agencies' authority to use drug funds to acquire and install satellite communication equipment and pay officer tuition fees for drug enforcement training
10/28/91	91-85	Disposition of criminal fines
05/28/92	92-45	Use of drug fines for drug education programs
10/08/92	U92-121	Deposit of fines under Section 39-17-428, *Tennessee Code Annotated*
11/26/08	08-179	Issuance of traffic citations based on evidence obtained from a surveillance camera

APPENDIX E

MISCELLANEOUS

Audit Procurement Guide

This document is included in the *Audit Manual* to assist auditors in understanding the audit environment in the State of Tennessee. Local governments are encouraged but not required to use this guide.

AUDIT PROCUREMENT GUIDE

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
Department of Audit

2015

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AUDIT PROCUREMENT GUIDE

1. Introduction

Under existing laws, the Office of the Comptroller of the Treasury of the State of Tennessee is responsible for ensuring that each local government is audited annually. Such audit may be performed under contract with an external audit firm or by the staff of the Comptroller's Office. This audit procurement guide is intended to assist government officials in selecting an auditor and contracting for the performance of such an audit. This is only a guide and may be modified to fit your entity's specific needs. Questions are often raised about this process and what should be included in the audit report. A synopsis of the questions asked most often follows:

2. What are the purposes of the financial and compliance audit?

The primary purpose of the audit is to determine if financial statements are presented fairly and comply with the requirements of state and local laws and regulations. However, the audit has many other benefits:

- The report is available to any citizen interested in the cost of government and how government is funded.
- The audit identifies problems in the local government's financial operation and recommends corrective action.
- The audit enables government officials to assess the local government's financial condition.
- The audit can be used to provide other agencies with information regarding grants.
- The audit can be used by lending institutions to establish the credit worthiness of the local government.
- The audit can be used by the governing body to determine whether the local government has faithfully followed its mandates and policies.
- The audit can serve as a means of preventing and detecting fraud and dishonesty or unintentional misapplication of funds.

3. What information should the audit contain?

There are several financial statements, schedules, and reports that the audit report must contain before approval by the State Comptroller. A qualified auditor will automatically ensure that these items are included in the report.

A. Introductory Section (table of contents, letter(s) of transmittal, etc.)

B. Financial Section

1. Independent Auditor's Report on the Financial Statements

   a. The report should be either (1) unqualified, (2) qualified, (3) disclaimer, or (4) adverse. The report should detail why an unqualified opinion could not be given

2. Management's Discussion and Analysis

3. Financial Statements

4. Notes to the Financial Statements

5. Required Supplementary Information (RSI)

6. Combining Statements

7. Individual Fund Statements

8. Supplemental Schedules (including a Schedule of Expenditures of Federal Awards and State Financial Assistance)

9. Statistical Information

10. Independent Auditor's Report(s) on Internal Control and Compliance

11. The report(s) on internal control and compliance should state that the audit was performed in accordance with *Government Auditing Standards* (generally accepted government auditing standards (GAGAS)) and the provisions of OMB Circular A-133 (as applicable).

12. The report(s) on internal control and compliance should detail any weaknesses noted or make reference to the findings and recommendations section of the audit report. When reporting on instances of noncompliance and internal control weaknesses, the following items should be included:

    a. The findings.

b. Recommendations for improvement.

c. Comments on corrective action planned.

d. Concurrence or nonconcurrence of appropriate official with the audit finding.

e. Comments on the disposition of prior year findings.

4. What qualifications should an auditor have?

For the audit to be accepted by state and federal governments, the auditor must be either a certified public accountant licensed to practice in Tennessee, or a member of the audit staff of the Tennessee State Comptroller's Office. Out-of-state firms auditing organizations that are not based in the State of Tennessee must comply with the requirements of the applicable state(s).

The auditor should have adequate training and experience in governmental accounting and be in good standing in the profession. The auditor in charge of the field work should have a practical working knowledge of applicable state and federal laws and regulations. The auditor should be independent under the requirements of the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards* in relationship to the engagement. The audit firm should be currently registered with the State Board of Accountancy and should have participated in an external quality control review at least once every three years, conducted by an organization not affiliated with the firm. (A copy of both the most recent external quality control review report and letter of comment should be provided to the local government.) All audit staff assigned to the audit should have the necessary hours of continuing professional education required by *Government Auditing Standards*.

5. How important is cost in making a decision?

Section 12-3-1209, *Tennessee Code Annotated (TCA)*— Requirements of professional persons or groups providing legal services, fiscal agent, financial advisor, advisory or consultant services covered by this part.

> Contracts by counties, cities, metropolitan governments, towns, utility districts and other municipal and public corporations of the state, for legal services, fiscal agent, financial advisor or advisory services, educational consultant services, and similar services by professional persons or groups of high ethical standards, shall not be based upon competitive bids, but shall be awarded on the basis of recognized competence and integrity. The prohibition against competitive bidding in this section shall not prohibit any entity enumerated from interviewing eligible persons or groups to determine the capabilities of such persons or groups.

6. How is the auditor selected?

The State Attorney General, in an opinion dated March 7, 1985, stated that governmental units are prohibited by statute from awarding [audit] contracts on the basis of competitive bidding. In a letter to the Comptroller of the Treasury, dated April 23, 1985, the Attorney General clarified this opinion as follows:

> Nothing in *Tennessee Code Annotated* Section 12-4-106 (recodified to 12-3-1209) prohibits a governmental entity from requesting proposals from accounting firms for the audit function and to consider price as one factor among others in determining what accounting firm to hire. However, it should be made very clear to firms submitting proposals that cost is only one factor and that the contract will not necessarily be awarded to the lowest in cost.

Our office recommends that all organizations use a Request for Proposal (RFP) as a basis for awarding a contract to audit. (See pages 7 -12 for a Proposal format.)

The cost is only one factor to be considered in awarding a contract to audit. Accordingly, such a contract may or may not be awarded to the firm submitting the lowest cost proposal..

Some factors to be considered in awarding a contract are (1) extent and quality of the governmental auditing experience of the firm, (2) the experience of those who would be assigned the actual work, (3) the ability of the auditor to meet the work schedule, and (4) the proposed cost.

The evaluation factors enumerated above and expanded on page 14 are some of those recommended for evaluation. The local government's representatives should not feel constrained about limiting the evaluation factors to those listed in the publication, but the factors to be evaluated should be relevant to the audit and to the audit firm's ability to respond.

7. Auditor rotation

The Comptroller's Office encourages auditor rotation when a government engages a CPA firm to perform the annual audit. Auditor rotation can be effective only if a government has access to a sufficient number of interested and qualified firms. While we recognize there are statutory requirements for annual audits of governmental units in Tennessee, governments audited by CPA firms are encouraged to participate in an aggressive procurement process that promotes competition from all qualified firms, including the current audit firm.

8. The audit committee

Local governments are encouraged to consider establishing an audit committee. The comptroller may require that an audit committee be established in any local government in this state that:

(1) Is in noncompliance with the accounting and financial reporting standards required by the Governmental Accounting Standards Board (GASB) on or after the prescribed date of June 30, 2008; or

(2) Has recurring findings from the annual audit for three (3) or more consecutive years as determined by the comptroller to be a material weakness in internal control or material noncompliance under government auditing standards.

The governing body of the local government shall create the audit committee. The audit committee members shall be external to management and may be members of the governing body, citizens from within the boundaries of the local government, or a combination of both. Members of the audit committee shall be selected by the legislative body. The audit committee shall establish responsibilities and duties that are stated in a resolution approved by the legislative body. The responsibilities and duties, at a minimum, shall address financial and other reporting practices, internal control, compliance with laws and regulations, and ethics. The resolution creating the duties and responsibilities of the audit committee shall be submitted to the comptroller prior to approval by the legislative body. The comptroller shall review the proposed resolution and report back to the local government on whether the resolution follows recommended guidelines for an audit committee. The resolution adopted by the legislative body must conform to the report issued by the comptroller.

9. When to contract

So that an auditor may have time to adequately plan and schedule the audit, a local government should award the contract as early in a fiscal year as possible. A good time to start the procurement process is immediately after the annual audit of the prior year is completed and presented to the governing body and the Comptroller of the Treasury. Every effort should be made to award the contract prior to the end of the fiscal year to be audited.

10. The audit contract

An electronic audit contract should be executed and submitted in accordance with provisions detailed in the ***Audit Manual***. The contract provides a section that allows the local government or auditor to add special restrictions or requirements. A local government would be well advised to use this section to formalize any verbal agreements made with the auditor. A sample copy of the most current version of the contract can be obtained at the following web address: http://www.comptroller.tn.gov/la/pdf/20120816ContractToAuditAccountsSampleFillin6-11-2012Final.pdf

11. What information should the local government have available for the auditor?

Government officials can reduce audit costs significantly by preparing in advance for the audit. Inaccurate and incomplete financial records will cause the auditor to spend many extra hours during the audit examination. The auditor will have no choice but to bill the local government for these hours.

The local government can prepare, in advance, certain information the auditor will need, including:

- A list of uncollected receivables.

- A list of capital assets acquired during the year.
- A list of principal revenue sources.
- A list of accounts receivable and payable and related reconciliations to the general ledger account balances.
- A list of insurance in force.
- Grant applications and regulations (grant contract numbers, federal CFDA numbers).
- Bank account reconciliations
- Investments.
- A list of grantors.
- Bond and note information.
- Minutes of the board meetings.

12. Where can additional information be obtained?

References

State of Tennessee, Department of Audit–*Audit Manual*

American Institute of Certified Public Accountants (AICPA), *Audits of State and Local Governments*.

OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

Government Finance Officers Association, *An Elected Official's Guide: Audit Committees* and *An Elected Official's Guide to Auditing*.

Technical Assistance

State of Tennessee, Comptroller of the Treasury, Division of Local Government Audit, (615) 401-7841.

REQUEST FOR PROPOSAL
Financial and Compliance Audit
_____(Local government)
_____(Date)

Purpose

_____ has issued this request for proposals from interested auditors, who are qualified under state law and regulations, for the performance of a financial and compliance audit of _____ in accordance with the requirements of the laws and/or requirements of the State of Tennessee. This audit shall be for the period beginning _____ and ending _____.

Scope

The auditor shall perform a financial and compliance audit of the financial statements of all funds and grant contracts of the local government.

Type of Audit

The auditor shall conduct the audit in accordance with *Government Auditing Standards* and requirements prescribed by the Comptroller of the Treasury, State of Tennessee. If applicable, the audit should be conducted in accordance with the provisions of the Single Audit Act and U.S. Office of Management and Budget (OMB) Circular A-133 and any other applicable federal management circulars.

General Requirements

1. The auditor shall, as part of the written audit report, submit to the organization's governing body a report containing an expression of an opinion that the financial statements are fairly presented, or an opinion qualified as to certain funds or items in the financial statements, a disclaimer of opinion and the reasons therefore, or an adverse opinion, and shall explain in every detail any unusual items or circumstances under which the auditor was unable to reach a conclusion. This report shall state that generally accepted government auditing standards have been followed in the audit.

2. The auditor's opinion shall be expressed on the opinion units identified in the AICPA Audit and Accounting Guide: *Audits of State and Local Governmental,* as well as the additional requirements in the State of Tennessee Department of Audit *Audit Manual*.

3. The auditor shall furnish copies of the report to the governing body. The auditor shall file copies of said report with the Comptroller of the Treasury, and with the appropriate officials of the granting agencies listed below:

_____

_____

_____

_____

4. If a management letter or any other reports or correspondence relating to findings or recommendations are issued in connection with this audit, a copy shall be filed with the Comptroller of the Treasury. Such management letters, reports, or correspondence shall be consistent with the findings published in the audit report (i.e., they shall disclose no material matters not also disclosed in the findings found in the published audit report).

5. The audit shall begin prior to _____, and the reports shall be submitted prior to _____, but in no case shall be filed later than six (6) months after the fiscal year-end.

6. Pertinent data from the working papers shall be available for three years for reference if requested by the local government.

7. Any reasonable suspicion of fraud, (regardless of materiality) or other unlawful acts including, but not limited to, theft, forgery, credit/debit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in Tennessee Code Annotated, § 39-16-402, involving public money, property, or services shall, upon discovery, be promptly reported in writing by the auditor to the Comptroller of the Treasury, State of Tennessee, who shall under all circumstances have the authority, at the discretion of the Comptroller, to directly investigate such matters. Notwithstanding anything herein to the contrary, the Comptroller of the Treasury, State of Tennessee, acknowledges that the auditor's responsibility hereunder is to design its audit to obtain reasonable, but not absolute, assurance of detecting fraud that would have a material effect on the financial statements, as well as other illegal acts or violations of provisions of contracts or grant agreements having a direct and material effect on financial statement amounts. If the circumstances disclosed by the audit call for a more detailed investigation by the auditor than necessary under ordinary circumstances, the auditor shall inform the organization's management and those in charge of governance in writing of the need for such additional investigation and the additional compensation required therefor. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's management and those charged with governance and the auditor for such additional investigation.

8. An audit exit conference with those charged with governance will be conducted by the auditor in charge. At this time, the findings and recommendations regarding compliance and internal control shall be discussed. Those charged with governance shall have the opportunity to respond in writing, to the findings. Responses shall be included in the audit report.

9. The records of the local government will not be removed from government offices except with expressed written permission of the local government.

10. The audit firm shall state its willingness to enter into a contract for one year, renewable annually for each of the next two years by the local government.

11. All adjusting entries will be submitted to the local government in writing with sufficient explanation so that they can be easily understood and properly posted to the financial records. Example: listing of invoices charged to accounts payable supporting any adjusting entries.

General Information

The local government shall have closed and balanced all accounts and shall have prepared financial statements for all funds to be examined by the auditor. Page 12 presents an example that should be expanded to provide the auditor with details of the local government's accounting system.

If additional information is required prior to submitting a proposal, inquiries should be directed to _____ at _____, or by telephone at _____.

Proposal Format

The proposal shall be styled at the discretion of the submitter; however, at a minimum it must address these areas:

1. Nature and extent of the firm's governmental auditing experience.

2. A copy of the audit firm's most recent external quality control review report should be provided to the local government.

3. Organization size and structure of the firm.

4. Qualifications of staff to be assigned to the work. Education, position in firm, and years and types of experience will be considered.

5. Availability of the auditor to the local government for specialized consultation and support assistance on sensitive or highly specialized issues.

6. Type and level of training provided to the firm's staff. Assurance that all audit staff assigned to the audit have obtained the necessary hours of continuing professional education required by *Government Auditing Standards*.

7. The audit fee must be quoted either as a fixed amount or rate per hour, with total estimated hours. If the latter method is used, a maximum amount must be stated for budgetary purposes. Also, estimated incidental expenses, such as travel and supplies, will be included.

Submittal Information

Proposals shall be submitted no later than _____, to:

_____
_____
_____
_____

Opening of Proposals

All proposals will be opened and reviewed at the regular meeting of those charged with governance to be held on _____ or at a later time and date as specified below.

Time: _____
Date: _____
Place: _____

Reservation of Right

The local government reserves the right to reject any or all proposals, to waive technicalities or informalities, and to accept any proposal deemed to be in the best interest of the local government.

_____

Local government's Name

Budget _____

Accounting System	
Number of funds	
Number of component units (governmental, proprietary, trust and agency)	
Checking accounts	
Number of purchase orders	/year
Number of checks written	/year
Number of receipts	/year
Payroll	
Number of employees	
Frequency of payroll	
Number of payroll checks	/year
Other Records	
Item	**Volume**

EVALUATION

The following factors should ordinarily be considered during the evaluation:

Technical Factors

1. Does the proposal clearly state an understanding of the work to be performed?

   Evaluators should consider:

   - appropriateness and adequacy of proposed procedures.
   - reasonableness of time estimates.
   - appropriateness of assigned staff levels.
   - timeliness of expected completion.

2. Technical experience of firm.

3. Qualifications of staff.

4. Size and structure of firm.

Cost Factors

Although cost is a significant factor, it should not be the dominant factor. Cost should be given more importance when all the other evaluation criteria are relatively equal.

If there is reason to believe that an unreasonably low proposal has been made, it should be rejected. One method of measuring reasonableness is to divide the proposed cost by a reasonable average hourly rate to show hours of effort that might be expected. (Refer to the next two pages for an example of a proposal evaluation method).

EXAMPLE OF A PROPOSAL EVALUATION METHOD

The following is an example of a method of evaluating proposals. The evaluation formula and the values assigned to the criteria given are for illustration only. Local governments should design formulas and criteria that meet its needs.

Total scores will be determined by adding the points received for technical qualifications (maximum of 70 points) to the points received for the cost of the audit (maximum of 30 points). The total score will be determined by the following formula:

$$\frac{\text{Technical score for this firm}}{\text{Highest technical score received}} \times 70 = \text{Technical score}$$

$$\frac{\text{Lowest price of all RFPss}}{\text{Price on RFP for this firm}} \times 30 = \text{Cost score}$$

In the event that oral interviews are necessary, additional points will be given on a scale of 0-10. Although the total score will be a significant factor, the local government reserves the right to make the final selection.

The evaluation of technical qualifications will be based on the following criteria:

Mandatory Criteria

Auditors will not be considered unless they meet each of the following criteria:

1. Must be a certified public accountant properly licensed to practice in the State of Tennessee or be in compliance with the requirements of *TCA* 62-1-117(a)(1).

2. Must meet the independence standard established by GAO.

Technical Criteria

Auditors who have met each of the above criteria should be evaluated using the following:

	Point Range
1. Prior experience in auditing local governments. (Consider: size, complexity, etc.)	0-20
2. Organization size and structure of firm.	0-5
3. Qualification of staff, including consultants, to be assigned to the audit. (Education, position in firm, and years and types of experience will be considered.) (0-25)	
(a) Qualifications and audit team makeup	0-20
(b) Overall supervision to be exercised over audit team by firm's management	0-5
4. Firm's understanding of work to be performed. This will be determined by the approach to the audit and the time estimated to perform each section. (0-20)	
(a) Audit coverage	0-15
(b) Realistic time estimates of program section	0-5
Technical points	0-70
5. Cost of the audit.	0-30
Maximum points	100

APPENDIX F

AUDITS FOR STATE OF TENNESSEE FINANCIAL REPORT

In order to facilitate the timely preparation of the CAFR for the State of Tennessee, the following audits with June 30 fiscal year ends must be submitted through the CARS system by October 31 of that same year. The Uniform Contract to Audit Accounts should reflect an October 31st or earlier due date. Audits with December 31 fiscal year ends should be submitted on or before June 30 of the following year.

Entity Name	Fiscal Year End	Relationship to State of TN
Agriculture Foundation for Tennessee Tech, Inc.	June 30	Tennessee Tech University
Cleveland State Community College Foundation	June 30	Cleveland State Community College
East Tennessee State University Foundation	June 30	East Tennessee State University
East Tennessee State University Research Foundation	June 30	East Tennessee State University
Medical Education Assistance Corporation	June 30	East Tennessee State University
Northeast State Community College Foundation	June 30	Northeast State Community College
Quality Review Panel	June 30	Court Order 1996
Tennessee Boll Weevil Eradication Foundation, Inc.	December 31	Component Unit
Tennessee Soybean Promotion Board	June 30	Fund of State of Tennessee
University of Chattanooga Foundation	June 30	University of Tennessee
University of Memphis Foundation	June 30	University of Memphis
University of Memphis Research Foundation	June 30	University of MemphisUniversity of Tennessee
University of Tennessee Foundation, Inc.	June 30	University of Tennessee
University of Tennessee Research Foundation	June 30	University of Tennessee
Walter State University Foundation (currently audited by State Audit)	June 30	Walter State University