
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 working papers 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

The United States Government Accountability Office has published *Government Auditing Standards (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. 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 (**OMB CIRCULARS**).

All governmental units are required to have an annual audit, regardless of federal or state funding levels.

Any nongovernmental entity that expends \$500,000 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). Program-specific audits must be approved prior to the execution of a Contract to Audit Accounts. Section E includes general guidance for program-specific audits. . Variances from these guidelines must be approved prior to the release of the report. Agencies other than those addressed in Section E, if approved to perform a program-specific audit, must contact our office to discuss reporting requirements.

The board of probation and parole requires an audit regardless of the level of funding received by the agency. A contract to audit must be executed with the department of audit, as required by *Tennessee Code Annotated*, Section 40-36-303(d)(1).

The Department of Intellectual and Developmental Disabilities (DIDD) requires 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 under these contracts is required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

TNInvestco entities administer funds for economic development in the State of Tennessee. These entities are required to have an audit conducted in accordance with *Government Auditing Standards* (Yellow Book).

The American Institute of Certified Public Accountants (AICPA) requires members to state that the audit was made in accordance with auditing standards generally accepted in the United States of America. Also, members should state that their examination was performed in accordance with those additional standards and requirements set forth in the above publications.

Coverage

The audit must 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 Comptroller of the Treasury of the State of Tennessee.

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 audits submitted to the Division of Municipal Audit, the budgetary information for the general fund and each major special revenue fund for which a legally adopted annual budget is required must be included as a part of the basic financial statements and should be opined on accordingly. In addition, 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. However, at a minimum the combining, individual fund, and budgetary schedules 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.

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 subrecipient contract requirements.

Any unlawful conduct, which is defined in *Tennessee Code Annotated*, 8-4-502 as theft, forgery, credit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in § 39-16-402, involving public money, property, or services, shall be reported by the auditor, **in writing immediately upon discovery**, 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. (See page A-8 for additional guidance.) 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 governing body in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's governing body and the auditor for such additional investigation.

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. At least once every three years, the audit firm shall participate in an external quality control review conducted by an organization not affiliated with the firm being reviewed. An audit firm that receives a peer review rating other than pass is subject to additional scrutiny and may be required to submit their working papers 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. Continuing education requirements are addressed in *Government Auditing Standards*. Auditors should have a practical working knowledge of state and federal laws and regulations controlling the financial operations of the auditee.

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 at <http://www.comptroller1.state.tn.us/ma/contract.asp>.

Comptroller’s Approval of Audit Contracts

The Comptroller has prescribed a uniform audit contract for local and special purpose governments, nongovernmental organizations that meet the definition of a subrecipient, various other organizations that are, by contract provision or miscellaneous TCA requirements, to have an audit and managed care organizations contracting with the state’s TennCare Program. Managed care organizations should use an electronic contract, 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.

If the uniform contract includes more than one annual audit period, financial reporting shall conform with the guidelines in Section A, page 11, item 6 and Sections C through G of this manual, as applicable.

The contract to audit accounts establishes the date by which the audit report shall be submitted. 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.

When a certified public accountant is considering conducting a special audit-related service 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).

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 electronic reports are included below; however, firms and their clients are responsible for complying with all CARS requirements.

Electronic Reports:

With the exception of certain agencies that file unaudited information or that file a courtesy report with our office, electronic reports and related management letters may only be filed by the audit firm.

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 and 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. 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 County Audit's or the Division of Municipal Audit's web site, as applicable.
7. A separately issued management letter that is referred to in the report on internal control and compliance 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.

Consideration of Fraud and Illegal Acts and Audit Procedures

The auditor is responsible for performing risk assessment procedures and developing an audit plan for each audit. No one audit plan will suffice in every audit and no group of audit steps is comprehensive enough to cover all circumstances. However, certain required audit procedures have been established by various state departments' rules, regulations, and policies. The audit procedures in [Appendix C](#) should be accessed prior to conducting any audit to identify those procedures which this office requires the auditor to consider when developing an audit plan. The information included in [Appendix B](#) should be reviewed and considered as a part of the auditor's fraud risk assessment.

Although the Comptroller's web site addresses some of the recurring inquiries from auditors, it should **not** be considered to be a comprehensive resource for all requirements related to an audit. If an auditor is not sure of the compliance issues governing a particular state funding source, the appropriate department should be contacted. Selected state department addresses and telephone numbers may be located at the following web site ([STATE DEPARTMENT PHONE NUMBERS](#)).

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

Any reasonable suspicion of fraud, such as defalcation, misappropriation, misfeasance, malfeasance, embezzlement or other illegal acts shall be reported by the auditor, **in writing immediately upon discovery**, 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. 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 therefore. Upon approval by the Comptroller of the Treasury, an amendment to this contract may be made by the organization's management and those in charge of 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 future failures to meet the above referenced contractual obligations so that they may take whatever disciplinary action they deem appropriate.

TCA 8-4-503 requires public officials to report unlawful conduct. TCA 8-4-502 states: ““Unlawful conduct” means theft, forgery, credit card fraud, or any other act of unlawful taking, waste, or abuse of, or official misconduct, as defined in § 39-16-402,” involving public money, property, or services. The inclusion of waste and abuse in this law should be considered when interpreting the provision of Item 7 of the Contract to Audit Accounts.

Confirmations from State

Certain state confirmations related to counties, municipalities, and school food service funds are distributed by the Divisions of County and Municipal Audit of the Comptroller’s Office via email or are posted on the web. However, the divisions cannot assemble the confirmations until all state departments provide the necessary information. For additional information regarding on-line confirmations, please see the Comptroller’s web site (***ON-LINE CONFIRMATIONS - COUNTY AUDIT, MUNICIPAL AUDIT***). If you need additional information, the divisions’ mailing addresses and FAX numbers are as follows:

Comptroller of the Treasury
Division of Municipal Audit
Bank of America Plaza
414 Union Street, Suite 1100
Nashville, TN 37243-1402
FAX (615) 532-4499

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

The following is a list of confirmations available through the Comptroller’s web site. Check the web for updates in this listing. (Banks approved to operate in the ***Tennessee Bank Collateral Pool, and grantor agency contacts*** are available on the web. Program guidelines and requirements must be confirmed directly with the grantor.)

1. State-shared revenues to counties
 - (a) Excise Tax
 - (b) Petroleum Special

- (c) Mineral Severance Tax
- (d) Coal Severance Tax
- (e) Gas-Oil Severance Tax
- (f) Mixed Drink Tax
- (g) Income Tax
- (h) Gasoline and Motor Fuel Tax
- (i) Gas 1989
- (j) Gas 3 Cent
- (k) Beer Tax
- (l) Alcoholic Beverage Tax & Special Alcoholic Beverage Tax
- (m) Local Option Sales Tax
- (n) TVA-In Lieu of Tax
- (o) Flood Control
- (p) Forest Title I or Forest Title III
- (q) Telecommunications Sales Tax
- (r) Forest Product Sales
- (s) Police Jurisdictions – Unauthorized Substances Tax
- (t) Business Tax (Trustee and County Clerk)

2. State-shared revenues to municipalities

- (a) Income Tax
- (b) Gasoline and Motor Fuel Tax
- (c) Gas 1989
- (d) Gas 3 Cent
- (e) Beer Tax
- (f) TVA-In Lieu of Tax
- (g) Sales Tax
- (h) Local Options Sales Tax
- (i) Mixed Drink Tax
- (j) Petroleum Special
- (k) Excise Tax
- (l) Telecommunications Sales Tax
- (m) Police Jurisdictions – Unauthorized Substances Tax
- (n) Alcoholic Beverage Tax

3. Wholesale Beer Tax Payments

4. Subrecipient Payments (including certain separate THDA Payments)
(This information has not been available for the last two years. Continued efforts are being made to provide this information in the future. Please check our website for the current status.)

5. County roads payments and local road enhancement payments to county and municipal governments

6. TVA payments to counties
7. Mortgage realty payments to counties
8. Fish and game license payments to counties
9. Local Government Insurance Cooperative Insolvency Assessment
10. Gross value of commodities distributed to school systems (detailed distributions are not currently available)
(There are certain questions regarding the valuation of commodities at this time. Please check our website for the current status on this issue.)
11. Gross value and detailed distributions of commodities to certain nonprofit organizations
12. Retirement information for entities participating in the Tennessee Consolidated Retirement System
13. State Department of Education allocations
14. ADA information from the State Department of Education
15. Emergency Communications Districts -Shared Wireless Charge
16. Drinking Water and Clean Water Loan Programs (Information prior to 2006 must be confirmed directly with the Comptroller of the Treasury, Division of Bond Finance, Suite 1600, James K. Polk Building, Nashville, TN 37243-0273)

Reporting Requirements

The audits of governmental departments, institutions, agencies, subrecipients, and vendors required to execute a Contract to Audit Accounts shall include the following, if applicable:

1. Governmental units and political subdivisions, except for certain internal school funds, are encouraged to issue a financial report that includes the minimum requirements of a comprehensive annual financial report of a governmental unit, as prescribed by GASB pronouncements. However, at a minimum the financial report should conform with the General Report Outline below.
2. The financial section for internal school funds (i.e., activity, cafeteria, and other internal school funds) should conform with reporting requirements outlined in the *Tennessee Internal School Uniform Accounting Policy Manual* used in conjunction with this manual.
3. 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.
4. The financial section for nonprofit organizations receiving subrecipient funding should conform with accounting principles generally accepted in the United States of America (GAAP) applicable to the entity.
5. The financial section for organizations receiving vendor funds that are required to have an audit should conform with accounting principles generally accepted in the United States of America (GAAP) applicable to the entity.
6. The financial section for TNInvestco organizations is currently under review. Please check Municipal Audit's web site for current guidance. (**Link to current TNInvestco guidance**)
7. Financial reports covering more than one fiscal year that are submitted to the Division of Municipal Audit should include:
 - 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.

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 I, as applicable.

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, 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 I 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 I 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). The American

Recovery and Reinvestment Act (ARRA) funding must be separately and clearly identified.

Different requirements regarding the level of information to be presented in this schedule are governed by the audit division approving the contract.

County Audit–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*.

Municipal Audit–

- This schedule must identify the various programs under which the organization received government funds (federal and state assistance).
- The minimum amount of information is illustrated in an example in this section.
- The title may change if no federal funds are involved or if only federal funds are involved.
- This schedule (and the format thereof) is required even if all grants were received directly from the federal government.

For additional guidelines that govern the contents of the schedule when there are separate audits of departments, divisions or funds, please refer to the [*Topical Index*](#) on the Municipal Audit web site for current reporting information.

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

IV. Internal Control and Compliance Section/Single Audit Section

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 shall include the additional reporting requirements outlined in the Circular.

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

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.

Current Developments Affecting Reporting

American Recovery and Reinvestment Act (ARRA)

The requirements related to ARRA funding will present unique auditing and reporting challenges. Federal, state and local web sites, and grant and loan agreements all provide information related to ARRA funding. Municipal Audit and County Audit also have information on the web related to complying with ARRA requirements. In addition, the web sites for many state departments include information related to ARRA. All resources should be considered in planning and conducting audits related to ARRA funding. ARRA requirements for separate accountability for Recovery Act funds affect the presentation requirements relating to the accounting records, Schedule of Expenditures of Federal Awards and State Financial Assistance (SEFA), Data Collection Form, the summary of auditor's results, findings, and other matters. When auditing the SEFA and presenting findings, the auditor should ensure ARRA expenditures have been separately disclosed by the auditee and that the auditor's headings for findings clearly identify those related to ARRA funding.

Auditors should pay particular attention to the following ARRA guidance:

1. The Office of Tennessee Recovery Act Management Directives. These directives are applicable to all governments that receive ARRA pass-through grants from a State Agency.
2. The six cross-cutting requirements for ARRA grants that are presented in the latest compliance supplement.
3. Audit requirements for ARRA Section 1512 reporting as presented in the latest compliance supplement. The reporting section of the compliance supplement is currently being revised, but at the date of this publication, auditors must examine the award number, award amount, award amount received, and award amount expended.
4. Requirements of Compliance Supplement Appendix VII.

Statements on Auditing Standards – Numbers 118, 119, and 120

These statements address supplementary information and required supplementary information and the auditor's responsibilities for such information, procedures that must be performed and documented in the working papers, and management's responsibilities for such information.

Auditors should carefully assess these statements and ensure that the audit working papers adequately document all procedures and the resultant conclusions regarding supplementary information.

SAS 118 addresses supplementary information that is included in a report that contains audited financial statements. It involves situations in which the auditor has no responsibility for determining whether such information is properly stated. The procedures required in this situation are limited, but should be adequately documented.

SAS 119 addresses supplementary information which an auditor has been engaged to report on in relation to the financial statements as a whole. The procedures to be applied, representations to be obtained, reporting requirements and resultant documentation are more significant in this situation. Documentation should be thorough and should include all relevant conclusions, communications, and adjustments, if any, proposed and recorded to ensure that the supplementary information is consistent with the overall financial statements.

SAS 120 addresses required supplementary information that must be included in the financial report. The procedures to be applied and the explanatory language to be included in the auditor's report are detailed in the standard. Again, the working papers should thoroughly document all procedures, conclusions and communications regarding the information.

FORMAT REQUIRED BY MUNICIPAL AUDIT

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	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>Federal Awards</u>						
US Dept. of Transportation*	20.509	04-37689-5	\$ -	\$ 400,320.00	\$ 400,320.00	\$ -
US Dept. of Transportation/TN Dept. of Transportation	20.509	Z9704933	(18,000.21)	480,009.12	490,723.14	(28,714.23)
Total Program 20.509			\$ (18,000.21)	\$ 880,329.12	\$ 891,043.14	\$ (28,714.23)
US Dept. of Agriculture/TN Dept. of Agriculture (Note: Noncash Assistance)	10.555	GR9707367	\$ 434.82	\$ 1,200.44	\$ 1,400.93	\$ 234.33
US Dept. of Justice	16.580	N/A	-	20,000.00	20,000.00	-
TOTAL FEDERAL AWARDS			\$ (17,565.39)	\$ 901,529.56	\$ 912,444.07	\$ (28,479.90)
<u>State Financial Assistance</u>						
TN Dept. of Environment & Conservation	N/A	Z60728725	\$ 2,000.00	\$ 24,853.19	\$ 26,853.19	\$ -
TN Dept. of Human Services	N/A	GR6104895	(719.93)	11,818.93	19,584.68	(8,485.68)
TOTAL STATE AWARDS			\$ 1,280.07	\$ 36,672.12	\$ 46,437.87	(8,485.68)
TOTAL FEDERAL & STATE AWARDS			\$ (16,285.32)	\$ 938,201.68	\$ 958,881.94	\$ (36,965.58)

*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.