TENNESSEE
COMPTROLLER
OF THE
TREASURY

Performance Audit Report

Office of the Comptroller of the Treasury
January 2022

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit
January 10, 2022

The Honorable Randy McNally
Speaker of the Senate
The Honorable Cameron Sexton
Speaker of the House of Representatives
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

The Honorable Jason Mumpower
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Office of the Comptroller of the Treasury for the period July 1, 2020, through June 30, 2021.\(^1\)

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

Our audit resulted in no audit findings. We have reported a matter for consideration to the Office of the Comptroller of the Treasury's management in a separate letter.

Sincerely,

\[\text{\[Signature\]}\]

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

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\(^1\) Our base audit period was July 1, 2020, through June 30, 2021. In certain instances, we expanded our scope beyond this period. See Audit Conclusions for more information.
Audit Highlights

We have audited the Office of the Comptroller of the Treasury for the period July 1, 2020, through June 30, 2021.² Our audit scope included a review of internal controls and compliance with laws, regulations, policies, and procedures in the following areas:

- internal controls over key processes in the Division of Local Government Finance, the Division of Property Assessments, and the Office of State Assessed Properties;
- the Division of State Government Finance’s review of revenue-generating capital projects for higher education institutions; and
- improvements made by state entities and county governments based on audit results reported by the Divisions of State Audit and Local Government Audit.

KEY CONCLUSIONS

FINDINGS

The audit report contains no findings.

² See footnote 1.
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INTRODUCTION

AUDIT AUTHORITY

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

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

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

BACKGROUND

The Comptroller of the Treasury is a constitutional officer elected by a joint vote of both houses of the General Assembly for a two-year term, and the functions and duties of the office are assigned through various legislative enactments. The mission of the Comptroller’s Office is to make government work better.

The Comptroller’s Office is responsible for the audit of state and local governmental entities and participates in the general financial and administrative management and oversight of state government. To discharge its statutory duties, the office is organized into 12 divisions with more than 550 employees. In addition to the main office in Nashville, there are field offices in 6 cities across the state—Cookeville, Greeneville, Jackson, Knoxville, Memphis, and Murfreesboro.

The basic functions of the divisions and offices are described as follows.

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3 The election of the Comptroller is established in Article VII, Section 3, of the State of Tennessee’s Constitution.
Office’s Organizational Structure

Administration

The Division of Administration provides direction, coordination, and supervision to the divisions and offices within the Comptroller’s Office. The division’s functions include the Office of General Counsel, the Office of Open Records Counsel, the Communications Office, and Legislative Coordination. The Chief of Staff is responsible for the overall management of the Comptroller’s Office.

- The Office of General Counsel provides legal guidance to all the divisions in the Comptroller’s Office and provides legal representation in judicial and administrative litigation. The Office of General Counsel also oversees the Office of Open Records Counsel, which serves as a resource to citizens, the media, and local governmental entities for issues related to Tennessee’s public records and open meetings laws.

- The Communications Office is responsible for media relations; the Comptroller’s website, intranet, and social media management; branding and design; publications oversight; employee communications; and other employee-focused projects.

- Legislative Coordination works with all divisions of the office, advising the Comptroller and other division directors on policy and legislative matters. This section develops the office’s legislative package and informs the Tennessee General Assembly on policy issues related to the office.

Department of Audit

The Comptroller is responsible for the audits of state, county, municipal, and other local government entities, as well as recipients of grant funds. Three divisions, referred to collectively as the Department of Audit, perform these functions.

The Division of State Audit provides the General Assembly, the Governor, and the citizens of Tennessee with objective information about the state’s financial condition and the performance of agencies and programs. Through financial and compliance audits, performance audits, information systems audits, and attestation engagements, the division aids the legislature in ensuring that state government is accountable to the citizens of Tennessee. The division includes three sections: State Agency Audits, Information Systems, and Medicaid/TennCare.

- State Agency Audits conducts financial and compliance audits, performance audits, and other engagements. The section audits the state’s financial statements and selected federal programs and determines whether financial operations are conducted properly, whether financial statements are presented fairly, and whether the organization has complied with applicable laws, regulations, and grant agreements, and presents the results in the state’s Annual Comprehensive Financial Report and the Single Audit Report. This section also conducts performance audits to provide information on the
efficiency and effectiveness of government agencies and programs in accordance with the Governmental Entity Review Law.

- The *Information Systems* section supports the work of the other audit sections by performing systems reviews of state agencies, colleges, and universities and by performing data retrieval, data analytics, and computer forensic analysis.

- Under an agreement with the Department of Finance and Administration, the *Medicaid/TennCare* section staff perform attestation and rate-setting functions for the state’s TennCare program. This includes reimbursable cost computation and examinations for nursing home facilities and developmental disabilities facilities participating in the Medicaid Program; computations of reimbursement settlements required by the Benefits Improvement and Protection Act of 2000; cost settlements for state-operated developmental centers serving those with intellectual disabilities; technical, financial, and budgeting support to TennCare from paid claims extracts; and examinations of TennCare managed care contractors performed jointly with the Department of Commerce and Insurance.

The *Division of Local Government Audit* is responsible for the audits of all local governmental entities with statutory audit requirements as well as certain nonprofit and for-profit organizations that are publicly funded. The division may conduct the audit for governmental entities or accept an audit prepared by a certified public accountant provided the audit meets minimum standards established by the Comptroller of the Treasury.

The division conducts the annual audits for 90 of the state’s 95 counties. Through a contractual process with independent certified public accounting firms, the division ensures the performance of over 1,700 audits for the state’s remaining counties, municipalities, public internal school funds, charter schools, utility districts, housing authorities, local government created entities, quasi-governmental organizations, and other government-funded agencies.

The *Division of Investigations* investigates allegations of fraud, as well as certain allegations of waste and abuse of public funds. These cases frequently result in criminal prosecution. Investigators also share the information with the other divisions of the Department of Audit—State Audit and Local Government Audit—for consideration in audits of the affected entity.

**Property Tax Functions**

The Comptroller’s Office has three divisions that are responsible for ensuring the fair and equitable administration of property taxes: the Division of Property Assessments, the State Board of Equalization, and the Office of State Assessed Properties.

The Division of Property Assessments provides assistance, expertise, and oversight to the state’s property assessors and ensures effective administration of Tennessee’s property tax. The division also assists in reappraisal programs, administers the Property Tax Relief Program, and provides technological services to property assessors. The division administers the Assessment Certification and Education Program for assessors and their staff.
Between reappraisals, which occur in each county on a four-, five-, or six-year cycle, the division conducts ratio studies to determine the overall level of appraisal within each county. The division administers the state’s Tax Relief Program, which provides property tax relief for low-income elderly and disabled homeowners. The program also provides tax relief for disabled veteran homeowners, as well as their surviving spouses. Tax collecting officials, including county trustees, receive applications from taxpayers who may qualify.

The division manages property tax billing services for 84 counties, whose tax records are maintained on the state’s computer systems. The division’s Geographic Services section uses Geographic Information Systems technology to help the division and property assessors in daily operations. The office also serves as a liaison to the U.S. Census Bureau’s Local Redistricting Data Program. Using census data, the office produces local maps and publishes county commission district and voting precinct maps.

The State Board of Equalization consists of the Governor, the Commissioner of Revenue, the Comptroller of the Treasury, the State Treasurer, the Secretary of State, and two Governor appointees. The board provides a legal and quasi-judicial review of property tax assessments, exemptions, and tax incentive programs. The board’s key responsibilities include establishing rules, policies, manuals, and guidelines for property tax assessments; administering property tax appeal hearings in conjunction with the Assessment Appeals Commission and the administrative law judges in the Secretary of State’s office; reviewing and rendering property tax exemption determinations for religious, charitable, scientific, and nonprofit educational institutions; and ensuring local government compliance with laws governing certified tax rates and tax incentive programs.

The Office of State Assessed Properties conducts annual appraisals, assessments, and audits of public utility and transportation properties. These assessments are certified to counties, cities, and other taxing jurisdictions for billing and collecting property taxes. Examples of the companies and industries assessed include commercial airlines and airfreight companies; barge line companies; privately owned electric, electric cooperative, and gas companies; private railcar and railroad companies; motor bus and motor carrier companies holding a common carrier certificate; telephone companies, including cellular and wireless; and water and sewer companies.

Finance Functions

The Comptroller’s Office provides financial support and oversight to Tennessee’s state and local government entities through two divisions: State Government Finance and Local Government Finance.

The Division of State Government Finance is responsible for managing the debt of the state and its issuing authorities, including the issuance of all bonds and notes and the repayment of such debt. This includes working with bond rating agencies and capital markets to obtain cost-efficient funding for capital projects authorized by the General Assembly; paying debt service on bonds outstanding; accounting for all debt issues and loans made through preparation of annual financial statements of each debt/loan program; monitoring and ensuring compliance with all federal laws, regulations, and ruling bodies regarding debt issued in the capital markets; and providing investors
and the capital markets community with Investor Updates as a part of the division’s continuing disclosure responsibilities. The division also serves as staff to the Bond Finance Committee of the Tennessee Housing Development Agency and administers the loan programs and performs accounting, financial reporting, and management for the Clean Water and Drinking Water State Revolving Fund loan programs, the Energy Efficient Schools Initiative loan program, and the State Infrastructure Program.

The division serves as staff to the State Funding Board, the Tennessee State School Bond Authority, and the Tennessee Local Development Authority.

- The **State Funding Board** is the entity authorized to issue all general obligation debt of the state to fund the state’s capital projects or to refinance outstanding obligations. The board is authorized to make debt service payments on outstanding bonds and other debt obligations held in the state treasury. As part of the state’s budget process, the board develops estimates of state revenue for the current and succeeding fiscal years to present to the Governor and the Chairs of the Senate and House Finance, Ways and Means Committees. The board also establishes policy guidelines for the investment of state funds. In addition, the board approves the Other Post Employment Benefit trust agreements for local governments, reviews and approves Economic and Community Development FastTrack projects, and provides oversight of debt repayment to the state for the Tennessee State Veterans’ Homes.

- The **Tennessee State School Bond Authority** is authorized to issue bonds and notes to finance revenue-generating capital projects for public higher education facilities and to finance projects approved pursuant to the Qualified Zone Academy Bond Program (QZAB) and the Qualified School Construction Bond Program (QSCB) of the federal government. In addition, the authority is authorized to issue debt to provide funds for student loans by the Tennessee Student Assistance Corporation. Pursuant to federal law, the authority has also issued QZABs and QSCBs to finance improvement loans for capital projects for cities and counties with qualifying K–12 schools.

- The **Tennessee Local Development Authority** is authorized to issue bonds and notes for the health loan program (water and sewer debt). This includes loans to local governments for sewage treatment, waterworks and capital projects, firefighting equipment, and airport facilities; certain small businesses for pollution control equipment; agricultural enterprises; not-for-profit organizations that provide certain intellectual disability, alcohol, and drug services; and local government units for financing construction of capital outlay projects for K–12 educational facilities.

The authority approves loans for the Clean Water and Drinking Water State Revolving Fund loan programs and approves loans to local governments from the Transportation State Infrastructure Fund, a $2 million revolving fund for transportation infrastructure projects throughout the state.

The **Division of Local Government Finance** implements laws relating to the financial operation of local units of government and other governmental entities. The division’s responsibilities include approving the budgets and debt obligations of local governments; approving investments submitted by cities, counties, and utility districts; reporting on plans by
municipal electric systems to provide video, cable, and internet services; assisting local
governments in areas of municipal finance; and providing research and support to the Tennessee
General Assembly. The Division of Local Government Finance also serves as staff to the Water
and Wastewater Financing Board and the Utility Management Review Board.

- The Water and Wastewater Financing Board supports municipalities, counties, and
treatment authorities that operate water and sewer enterprises by ensuring that they are
financially self-supporting.

- The Utility Management Review Board supports natural gas, water, and wastewater
public utility districts by ensuring that they are financially self-supporting. The board
addresses certain complaints from utility district customers; approves or disapproves
the creation of new utility districts; and conducts ouster proceedings for utility district
commissioners related to misconduct, neglect, or training.

Research and Education Accountability

The Office of Research and Education Accountability (OREA) provides the General
Assembly with objective and accurate research, evaluation, and analysis. Recent topics include a
2021 evaluation of the Tennessee Promise Scholarship Program and a 2020 report on the
effectiveness of the Tennessee Textbook Commission, as well as information on teacher
compensation and school resource officers. During the legislative session, OREA provides staff
support for legislative committees, analyzes the state budget, and monitors legislation. OREA also
coordinates efforts for the office’s preparation of Fiscal Note Support Forms, which the Fiscal
Review Committee uses to produce fiscal notes for all divisions of the Comptroller’s Office. As
part of its focus on education topics, OREA also includes the Higher Education Resource Officer.
During our audit period, the Office of Small Business Advocate was added to the division’s
responsibilities.

- The Higher Education Resource Officer (HERO) reports to the director of OREA and
serves as a liaison and resource for Tennessee higher education faculty, staff, and
employees. The HERO also reviews and evaluates higher education policy.

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

Management Services

The Office of Management Services provides administrative and support services to the
divisions of the Comptroller’s Office, including budgetary and financial management, facilities
management, and human resources management. The office also provides administrative and
support services to the state’s Central Procurement Office, which is administratively attached to
the Tennessee Department of General Services. Management Services assists the Comptroller in
policy and contract matters and provides procurement oversight and staff support as a member of
the State Building Commission, the Procurement Commission, the Advisory Council on State
Procurement, the Certification Committee, and the Board of Claims.

**Technology Solutions**

Technology Solutions provides the divisions, offices, and boards of the Comptroller’s
Office with information technology service and support, such as system analysis and development,
infrastucture support and maintenance, personal computer deployment and support, network
support, and assistance in other computer-related areas. The division is also responsible for
preparing the office’s annual *Information Systems Plan*, which includes planned information
systems projects and the status of projects in development.
Source: Division of Management Services.
We have audited the Office of the Comptroller of the Treasury for the period July 1, 2020, through June 30, 2021. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, and procedures in the following areas:

- internal controls over key processes in the Division of Local Government Finance, the Division of Property Assessments, and the Office of State Assessed Properties;
- the Division of State Government Finance’s review of revenue-generating capital projects for higher education institutions; and
- improvements made by state entities and county governments based on audit results reported by the Divisions of State Audit and Local Government Audit.

Management of the office is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts.

We provide further information on the scope of our assessment of internal control significant to our audit objectives in Appendix 1. In compliance with generally accepted government auditing standards, when internal control is significant within the context of our audit objectives, we include in the audit report (1) the scope of our work on internal control and (2) any deficiencies in internal control that are significant within the context of our audit objectives and based upon the audit work we performed. We provide the scope of our work on internal control in the detailed methodology of each audit section and in Appendix 1, and we identify any internal control deficiencies significant to our audit objectives in our audit conclusions, findings, and observations.

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

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

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4 Our base audit period was July 1, 2020, through June 30, 2021. In certain instances, we expanded our scope beyond this period. See Audit Conclusions for more information.
There were no audit findings in the prior audit report of the Comptroller of the Treasury dated December 2020.

The Office of the Comptroller of the Treasury participates in the general financial and administrative management and oversight of Tennessee state government, including performing audits of state and local governmental entities, reviewing and approving local government and utility districts’ annual budgets, managing the state’s debt, overseeing property assessors, and conducting property assessments of specific industries on behalf of local governments. Management of the Comptroller’s Office is responsible for establishing internal controls consisting of plans, methods, policies, and processes to fulfill the office’s mission to make government work better and to report reliable information internally and externally—internally to management and staff and externally to customers, such as local government entities, bond rating agencies, county tax assessors, members of the General Assembly, and citizens of the state.

Management has organized the Comptroller’s Office into 12 divisions, and each division contributes to the office’s mission by executing its statutory responsibilities and assigned duties. For this audit, we focused our review of internal controls over key processes in 3 divisions of the office:

- the Division of Local Government Finance,
- the Division of Property Assessments, and
- the Office of State Assessed Properties.

We gained an understanding of each division’s internal controls and procedures for its key process and management’s efforts to make government work better through the key process.
The Division of Local Government Finance (LGF) oversees the financial operations of local government entities, including approving budgets, debt obligations, and investments. Statute requires all municipalities, counties, metropolitan governments, water, and wastewater authorities to submit their annual budgets to the division for approval. According to the division director, this budget approval process positively impacts the state’s savings through lower bond rates for general obligation bonds, thereby aligning with the Comptroller’s Office’s and the state’s goals to make government work better. The division also collaborates with other office divisions, such as the Office of General Counsel in the Division of Administration and Local Government Audit in the Department of Audit, to offer training events for local government officials that provide guidance on the budget process and on debt issuance.

**Recent Achievements of Local Government Finance**

In addition to statutorily required activities, LGF makes government work better as evidenced by the following:

- compiled two manuals to assist local governments in 2021: the *Tennessee Budget Manual for Local Governments* presents uniform guidance for the annual budget process, and the *Tennessee Debt Manual for Local Governments* provides forms and procedures related to debt issuance;
- created informational videos about budget revenue estimating and budget summary schedules, made available to local government officials on the Comptroller’s website; and
- in 2021, assisted with passing Public Chapter 128, local government debt law modernization, and Public Chapter 196, uniformity in local government lease financing.

### The Budget Review Process

The division employs 11 people: a director, an assistant director, 7 financial analysts, a specialist, and a utility boards technical secretary. The financial analysts are responsible for reviewing the annual budgets of governmental entities in their assigned region. According to the division director, the division’s annual review and approval of local government entities’ budgets is key to meeting the office’s mission and fulfilling state law. The review process ensures that local government entities have balanced budgets, that the budget includes required debt payments to prevent default, and that investments comply with state laws.

Pursuant to Section 4-3-305, *Tennessee Code Annotated*, the Comptroller’s Office provides guidance to local government entities on the budget submission and approval process in the *Tennessee Budget Manual for Local Governments*. As outlined in the budget manual, prior to the beginning of each fiscal year and within 15 days after approval by their

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5 The Office’s Organizational Structure section on page 2 describes LGF’s responsibilities in more detail.
governing body, local government entities submit their budget and required budget documents\(^7\) to the division for review and approval. The division’s 30-day review process begins once staff have determined that the local government entity has submitted all required budget information. To ensure local government entities provide all required documents with their budget submissions, the division developed a formal checklist. We provide an excerpt of the checklist used in the division’s budget review process in Appendix 3. Once the division receives all required information from a local government entity and the analyst completes the checklist, LGF management can begin the 30-day review period.

LGF management and staff use the FiscalFit system, the division’s workflow management system, to assign, review, and approve budgets. See Flowchart 1 for the division’s process for reviewing local government budgets.

**Flowchart 1**
**Local Government Finance Budget Approval Process**

7 The *Tennessee Budget Manual for Local Governments* provides a list of budget documents local government entities must include with the submission of their budget. These budget documents include a certified copy of the signed budget resolution and property tax levy, detailed budgets for all funds (including enterprise funds and school funds), the budget summary schedule, cash flow schedules, and revenues forecasts.
Audit Results

Audit Objective: Did the Division of Local Government Finance management establish internal controls within its key budget review approval process to fulfill the division’s responsibility under state statute and to achieve the division’s mission?

Conclusion: Division management established control activities within the key budget review approval process. These control activities include using a checklist analysis process to assess the sufficiency of the budget document submissions and a supervisory review process to facilitate the division’s approval of the local government entity budgets.

Methodology to Address Audit Objective

To address our audit objective and gain an understanding of the process for the review of local government entities’ budgets, including obtaining an understanding and assessing the design of internal control significant to our audit objective, we interviewed the director and assistant director of the division. The director described a process for the review of local government entity budgets, which includes the responsibilities of the division’s financial analysts, assistant director, and director. We met with the assistant director to inquire and to walk through the budget documentation requirements, and to discuss the review process provided in the Tennessee Budget Manual for Local Governments. With the assistant director, we performed a walkthrough of the budget review process in the FiscalFit workflow management system, including the financial analyst’s process for completing the checklist tab, adding the required budget documents, completing the letter based on the review results, and the workflows steps for approval by management. We obtained and reviewed documentation related to these processes, including the division’s budget checklists, the Tennessee Budget Manual for Local Governments, and examples of the types of letters sent to the local governments. We obtained and reviewed the Tennessee Debt Manual for Local Governments and the division’s online training tools for local governments.

Division of Property Assessments

The Division of Property Assessments (DPA) oversees county property assessors to ensure the effective administration of Tennessee’s property tax. DPA also provides guidance to assessors through technological services and educational courses. The division has 116 positions and has a central office in Nashville and regional offices in Cookeville, Greeneville, Jackson, Murfreesboro, and Knoxville.

Monitoring Process for County Assessors

According to DPA’s director, the regional offices’ monitoring process is key to ensuring assessments have been conducted correctly and identifying areas for improvement for county assessors’ offices. According to management, the monitoring process also ensures county assessors have correctly documented the value and description of real property for tax purposes.

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8 The Office’s Organizational Structure section on page 2 describes DPA’s responsibilities.
9 As of December 15, 2021, 3 positions are vacant.
Division management assigns each regional office responsibility for monitoring county assessor offices based on the location of the office. Regional offices are staffed with specialists, senior specialists, and managers, all of whom are involved in the monitoring process.

- DPA specialists conduct monitoring of assessor offices using a visual monitoring report and a sales verification report. The visual monitoring report records the results of the specialist’s comparison of property descriptions in the assessors’ records to a physical visual inspection and aerial imagery, with a list of the differences found by the specialist. The sales verification report documents the specialist’s review of a sample of property sales and compares the property information in the assessor’s records to the property deed in the Register of Deeds office, with explanations about the differences noted. The specialist incorporates the report results into a monitoring worksheet and submits the worksheet to a senior specialist for review. (See Appendix 3 for an example of the Monitoring Worksheet.)

- The senior specialist reviews the monitoring worksheet and supporting documentation to verify the specialist’s conclusions. This includes a review of the visual monitoring report and the errors noted, as well as a review of the sales verification report. After completing their review, the senior analyst submits the worksheet to the regional manager for review.

- The regional manager reviews the monitoring worksheet and documented conclusions and communicates the monitoring worksheet results to the county assessor. The regional office manager and county assessor both sign the monitoring worksheet, acknowledging that a discussion was held.

As a result of the division staff’s monitoring process, division staff may also identify areas of needed improvement within an assessor’s office. If improvements are needed, the regional manager will discuss those areas with the county assessor and may recommend that the county assessor and staff participate in additional educational courses.

### Additional Activities of the Division of Property Assessments

In addition to the key process of reviewing the assessor functions, the division also

- shares oversight results with the Division of Local Government Audit as part of the process to perform the annual county financial statement audit;
- provides training opportunities to help county assessors obtain certifications, such as those offered through the International Association of Assessing Officers, as required by statute;
- provides an annual report that details education courses offered, the number of individuals participating in courses, and the number and types of oversight activities performed during the year, as required by statute; and
- publishes guidance for assessors in its *Greenbelt Handbook and Back Assessment & Reassessment Handbook* and *Sales Data Collection and Verification Manual*, as required by statute.
Audit Results

Audit Objective: Did management of the Division of Property Assessments establish a supervisory review process of the activities performed by division specialists to determine the accuracy of property assessments and the performance of the county assessors?

Conclusion: Management of the division established a supervisory review process of the monitoring activities completed by division specialists, to ensure that the county assessors have correctly documented the value and description of real property. The process includes a review by a DPA senior specialist and a DPA regional manager of the specialist’s documentation of visual property inspections and verification of sales data, as well as a process to communicate the results to county assessors.

Methodology to Address Audit Objectives

To address our audit objective and gain an understanding of the supervisory review process designed to ensure the county property assessors prepared accurate assessments and performed their duties sufficiently, including obtaining an understanding and assessing the design of internal control significant to our audit objective, we interviewed the division director as well as the regional manager and the senior specialist of the division’s Murfreesboro field office. Given management’s description of the supervisory review activities performed by senior specialists and regional office managers, we obtained supporting documentation, and we performed additional inquiry and observations and a walkthrough of the process related to their review of monitoring documentation. We focused on the review process used by the senior specialist and the regional manager to ensure the assessors could produce accurate assessments and had performed their assessor duties. We conducted a walkthrough with the senior specialist of their process to review the monitoring worksheet and verify the accuracy of the supporting documentation, and the specialist’s conclusions. We specifically reviewed the DPA monitoring worksheet, completed by a specialist, which concludes on county assessor responsibilities and activities to determine the accuracy of the county assessor’s records. We also reviewed the two reports completed by a specialist and included in the monitoring worksheet: the visual inspection report, which includes both in-person inspections and aerial imagery, and the sales verification report, which documents the comparison of a sample of property sales values data in the assessors’ records to the records in the Register of Deeds office. We conducted a walkthrough with the regional manager of the process to perform the final review of the monitoring worksheet and supporting documentation before the results are communicated to county assessors.

We also reviewed evidence that the director, manager, and senior specialist had identified and communicated other issues and suggestions for improvement when appropriate, and we obtained and reviewed other documents relating to the division’s general oversight of the assessor offices, including the division’s 2021 Annual Report, the division’s Appeals Handbook, Tangible Personal Property Handbook, and Greenbelt Handbook. These are provided on the division’s website for use by the county assessors.
Office of State Assessed Properties

Pursuant to Section 67-5-1301(a), *Tennessee Code Annotated*, the Office of State Assessed Properties (OSAP) performs statutorily required ad valorem assessments of public utility and transportation companies, which include railroad companies, motor bus and/or truck companies, pipeline companies, and gas and electric companies. OSAP is responsible for assessing approximately 1,800 companies across the state. Section 67-5-1303(a), *Tennessee Code Annotated*, requires owners of property subject to the ad valorem tax to file information with the division by April 1 of each year. The required information includes a report of the company’s annual gross revenue; net operating income; bonded indebtedness; and assets, such as real estate, buildings, and machinery, located within the state. Division staff use the company’s submitted financial information to assess its property values and to compute the amount of local property taxes it owes to the local government. The office employs 12 staff, including a director, an assistant director, 5 senior specialists, 2 specialists, and 3 analysts, who all work in the Nashville office.

*Ad Valorem Property Assessments Process*

According to the director of OSAP, this annual ad valorem assessment process is a key process that ensures that assessed property values are correct and consistent, and the office uses the process to provide the counties with information for billing and collecting tax revenues that are due. The division reviews assessments as shown in Exhibit 1.

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10 An ad valorem tax is based on the assessment of the value of a company.

11 The Office’s Organizational Structure section on page 2 describes OSAP’s responsibilities in more detail.
Exhibit 1

OFFICE OF STATE ASSESSED PROPERTIES | AD VALOREM ASSESSMENTS PROCESS

Statutory deadline for the submission of the Ad Valorem Tax Report for centrally assessed taxpayers.

Appraisal and assessment work begins.

On or before the first Monday in August (statutory deadline), OSAP completes and sends a notice of assessment to each company. Companies can file exceptions within 10 days after the first Monday. OSAP changes or affirms the original assessment.

The State Board of Equalization certifies to the Comptroller the valuation upon each property assessed by the Comptroller.

**ON OR BEFORE THE THIRD MONDAY IN OCTOBER**
The ad valorem tax assessment process begins when companies submit their financial information to OSAP. (See Appendix 3 for an example of information submitted.) An OSAP specialist reviews the information, requests additional information if needed, and completes an assessment conclusion. OSAP management reviews the assessments and uses a change analysis report and an industry batch report to identify companies with significant changes in valuations between the current- and the prior-year assessment for management review. Assessments selected by management for review are compared to the financial records provided by the company’s ownership to determine if the valuation reached is accurate and intended. Additionally, OSAP provides the notice of assessments to the companies on the first Monday in August for their review. Companies have 10 days to file exceptions, submitting any additional information to OSAP for consideration. OSAP can change or affirm the assessment based on review of the additional information.

The State Board of Equalization (SBOE) provides the final approval and certification of the assessments. The SBOE meets in October of each year to certify the assessments from OSAP.

**Audit Results**

**Audit Objective:** Did management of the Office of State Assessed Properties establish internal controls within its key ad valorem tax assessment review process to fulfill the division’s responsibility under state statute and to achieve the division’s mission?

**Conclusion:** Division management established control activities within the key ad valorem tax assessment review process. These control activities include a process of supervisory review to confirm the accuracy of the ad valorem tax assessments and a process to identify significant changes in annual assessments which require additional management review.

**Methodology to Address Audit Objective**

To address our audit objective and gain an understanding of the process for the ad valorem tax assessment review process, including the supervisory review process and the process to analyze and identify changes in annual assessment amounts, and to obtain an understanding and assess the design of internal control significant to our audit objective, we interviewed the division’s director and assistant director. The director and assistant director described the process for completing ad valorem tax assessments and their management review process to ensure the accuracy of the assessments. We performed a walkthrough with the director and assistant director of the process.
of their review of the ad valorem tax assessments, including the use of the division’s change analysis and industry batch reports. As demonstrated to us by management, these reports identify significant changes in valuations between current- and prior-year assessments which require additional review by upper management. We also obtained and reviewed documentation of the ad valorem tax assessment process, including the 2021 ad valorem tax reports, the 2021 Motor Bus industry’s ad valorem worksheets, and the 2021 change analysis worksheets.

DIVISION OF STATE GOVERNMENT FINANCE’S REVIEW OF REVENUE-GENERATING CAPITAL PROJECTS FOR HIGHER EDUCATION INSTITUTIONS

The Division of State Government Finance (SGF) advises and assists the Tennessee State School Bond Authority (TSSBA) with the issuance and repayment of bonds.12 The division’s director regularly communicates with the three major bond rating agencies (Standard & Poor’s, Moody’s, and Fitch Ratings) to provide updates on state revenue collections; the status of the annual budget; and other financial-related news, such as the recent announcement that a major automotive manufacturer will build a facility in West Tennessee. Division staff and management also meet with governing board members of the higher education institutions to provide them information on the status of their outstanding bond balances, as well as to inform them of the services SGF can provide them. We focused our review on SGF’s assistance to the TSSBA and the review of revenue-generating capital projects for higher education institutions.

Revenue-Generating Capital Projects

The TSSBA issues bonds and notes to fund the construction of revenue-generating capital projects for higher education institutions. Higher education institutions build capital projects to provide their students with new or renovated facilities. Capital projects at higher education institutions, such as athletic facilities, parking garages, dormitories, research facilities, and classroom buildings, can span several years and cost millions of dollars. Institutions generally finance capital projects in one of two ways based on whether the facility will generate measurable revenue:

- **Nonrevenue-generating capital projects** are included in the annual state budget and financed with general obligation bonds. These capital projects, such as classrooms, typically do not generate measurable revenue for the institution and are not reviewed or approved by SGF or TSSBA.

- **Revenue-generating capital projects** are financed with bonds which are repaid with institutional resources, such as fees and donor contributions. Typically, these facilities generate measurable revenue, such as ticket sales for arenas or student fees for parking

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12 The Office’s Organizational Structure section on page 2 describes SGF’s and TSSBA’s responsibilities in more detail.
garages. SGF reviews applications from institutions to finance revenue-generating capital projects as part of their advisory responsibilities to the TSSBA.

According to the SGF director, the review and approval of revenue-generating capital projects is one of the division’s key processes. To fulfill its responsibilities, the division employs 10 staff—a director, a manager, 5 program accountants, and 3 specialists. The division contracts with Hawkins, Delafield, & Wood, LLP to act as bond counsel to provide the tax opinion on the bonds and to advise whether the projects should be financed with tax-exempt or taxable debt.\(^{13}\) Per the division’s director, SGF considered and approved 3 revenue-generating capital projects in both calendar years 2019 and 2020.

**Application and Approval Process for Revenue-Generating Capital Projects**

Higher education institutions begin the process of applying for financing through the TSSBA by first obtaining the approval for the project from their governing body, such as the boards of the Locally Governed Institutions, the Tennessee Board of Regents, or the Board of Trustees of the University of Tennessee. The higher education institution then submits a TSSBA Project Application to SGF for the division’s review. We provide an example application in Appendix 4.

The application describes pertinent aspects of the capital project, including the facility’s purpose, estimated useful life, and amount of square footage. The application also provides the funding sources for the capital project, including the proposed financing through TSSBA. The application lists pledged revenues, which are estimated annual revenues from (1) revenues generated from the project and/or fees charged to students for use of the facility or ticket sales for events held at the facility, and (2) from donor contributions to the project that will be used to fund the amount of the annual debt service and reserve rate. The higher education institution’s plan to pay debt service costs must also provide sufficient funds to create a reserve that would cover potential maintenance and repairs and would provide a cushion against unexpected shortfalls in project revenue.

To fulfill their TSSBA service responsibilities, SGF receives and reviews the completed application. Once an application is received, an SGF program accountant sends the application to the SGF bond counsel to determine the tax status for the project and verifies that the project has been disclosed in the state budget.\(^{14}\) SGF then uses the application’s information to analyze the financial feasibility of the project, comparing the projected debt service for the project to the projected revenues through a process called a feasibility test. If the project passes the feasibility test, division staff will provide a recommendation and supporting information to the TSSBA board for their review and approval. If the project does

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\(^{13}\) Based on the division’s projected rate, tax-exempt bonds have a lower interest rate.

\(^{14}\) Per the division director, higher education institutions disclose their projects in the state’s budget before being approved by the TSSBA. This provides transparency and enables the institution to prioritize their capital projects.
not pass the feasibility test, the division will work with the institution to revise their application and estimates before submitting the application for another feasibility test.

Projected Rates Used in the Feasibility Test

The division director provided the “grid” of projected interest rates from the division’s financial advisor, PFM Financial Advisors, LLC. (See Table 1.) According to the director, the division has required higher education institutions to follow a conservative methodology to pledge revenues to retire debt and to operate and maintain their completed capital projects. As such, the division has required institutions to use projected interest rates when developing their project feasibility test. For example, per the rate schedule, an institution’s projected interest rate for constructing a new basketball gymnasium with a 30-year taxable bond would be 7.85%.

Table 1
Division of State Government Finance
TSSBA Projected Interest Rate Schedule Used to Determine Feasibility
By Term Length and Tax Status

<table>
<thead>
<tr>
<th>Term*</th>
<th>Tax Exempt</th>
<th>Taxable</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>6.750%</td>
<td>7.350%</td>
</tr>
<tr>
<td>20</td>
<td>7.000%</td>
<td>7.600%</td>
</tr>
<tr>
<td>25</td>
<td>7.125%</td>
<td>7.725%</td>
</tr>
<tr>
<td>30</td>
<td>7.250%</td>
<td>7.850%</td>
</tr>
</tbody>
</table>

*The minimum term length for a bond is 15 years; the maximum term length is 30 years. Source: Division of State Government Finance.

The projected interest rate depends on the tax status of the project determined by the bond counsel and the term of the bonds. The rate consists of two components:

- the annual debt service (interest payment due on the principal of the bonds), and
- a reserve rate used for building maintenance and repair, as well as additional funds should the estimated revenues for debt service not meet projections.\(^{15}\)

\(^{15}\) According to the director, during the pandemic, institutions were not generating the projected revenues, and the institutions’ reserves were available to cover debt service payments.
Audit Results

**Audit Objective:** Did the Division of State Government Finance design and implement a process to review revenue-generating capital projects on behalf of the Tennessee State School Bond Authority?

**Conclusion:** The division has designed and implemented a system to review revenue-generating capital projects submitted by higher education institutions.

**Methodology to Address Audit Objective**

To address our audit objective and gain an understanding of the process for the review of revenue-generating capital projects for higher education institutions, and to obtain an understanding and assess management’s design and implementation of internal control significant to our audit objective, we interviewed the division director and the two program accountants. We observed management’s demonstration of the process for reviewing applications for revenue-generating capital projects, including the process using the division’s algorithm to complete a feasibility test for each project. We obtained and reviewed documentation of these processes, including the division’s PowerPoint presentation to higher education institutions on financing capital projects, a grid with projected interest rates used in the feasibility test; the TSSBA project application for revenue-generating capital projects, and a completed project application.

**IMPROVEMENTS MADE BY STATE ENTITIES AND COUNTY GOVERNMENTS BASED ON AUDIT RESULTS REPORTED BY THE DIVISIONS OF STATE AUDIT AND LOCAL GOVERNMENT AUDIT**

The Department of Audit16 includes the Division of Local Government Audit and the Division of State Audit, and both divisions perform audits in accordance with generally accepted government audit auditing standards issued by the Comptroller General of the United States in *Government Auditing Standards* (Yellow Book).17

**Types of Audits**

Both the Division of Local Government Audit and the Division of State Audit conduct financial audit engagements.18 Financial audit engagements provide an opinion on the financial statements of the audited entity and

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16 Section 4-3-302, *Tennessee Code Annotated*, establishes the Comptroller of the Treasury as the administrative head of the Department of Audit.

17 Financial audits, attestation engagements, and reviews of financial statements conducted by the Divisions of Local Government Audit and State Audit also incorporate AICPA standards by reference.

18 The financial and compliance audits performed by State Agency Audits are financial audits conducted by Yellow Book standards.
provide a report on the entity’s internal controls over financial reporting and compliance with provisions of certain laws, regulations, contracts, and grant agreements. The Division of State Audit also conducts performance audit engagements. The objectives of performance audit engagements can vary significantly, but generally these engagements provide conclusions concerning an audited entity’s operations, reporting, or compliance as well as related internal controls. The Division of State Audit conducts most performance audits in keeping with Title 4, Chapter 29, *Tennessee Code Annotated*, the *Tennessee Governmental Entity Review Law*.

**Audit Reports and Findings**

The Divisions of State Audit and Local Government Audit contribute to the Comptroller’s mission to make government work better through the issuance of audit reports, which provide unbiased and objective information to decision makers and the public. At the conclusion of an audit, the divisions communicate audit results in the audit report, which may include findings that identify areas for improvement. According to the Yellow Book, a finding is “an issue that may involve a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or instances of fraud.” Audit reports may also include recommendations for corrective action to improve operations, reporting, or compliance and to correct the root cause of deficiencies identified in any findings.

Although management is responsible for taking corrective action to address deficiencies, when auditors in the Division of Local Government Audit and the Division of State Audit perform subsequent audit engagements, they conduct procedures to determine whether management corrected the deficiencies or whether the deficiency continues to exist. Pursuant to Section 8-4-109 (d), *Tennessee Code Annotated*, when the Division of State Audit’s current audit work determines that management has not implemented corrective action on a prior audit finding, the division reports on the status of the findings in the current report and communicates the results to the chairs of the General Assembly’s Government Operations; Fiscal Review; and Finance, Ways and Means Committees.

**Audit Results**

**Audit Objective:** Did state agencies and county governments implement improvements based on the findings identified by the Divisions of State Audit and Local Government Audit in fiscal years 2019 and 2020?
Conclusion: Based on our analysis, management of the audited entities took action to resolve the majority of prior audit findings. See the Results of Audit Work for more information.

Methodology to Address Objective

To address our audit objective and gain an understanding of the divisions’ processes to review and report prior findings, we interviewed staff of Local Government Audit and State Audit, and we reviewed auditing policies and procedures as well as applicable sections of the Yellow Book and Tennessee Code Annotated. We reviewed the 180 county audits completed by the Division of Local Government for the fiscal years ending June 30, 2019, and June 30, 2020, and analyzed the reporting on the results of prior audit findings. We reviewed the 29 performance audits and 58 financial and compliance audits released by the Division of State Audit’s State Agency Audits section for the fiscal years ending June 30, 2019, and June 30, 2020, and analyzed the reporting on the results of prior audit findings.

Results of Audit Work

In the following pages, we provide the results of our analysis of the follow-up on prior findings conducted by the Division of Local Government Audit for county audits and by the Division of State Audit’s State Agency Audits section for performance audits and financial and compliance audits. Based on our review of auditors’ follow-up work on these prior findings, we identified whether these prior findings were resolved, partially resolved, or repeated.

- **Resolved prior findings** indicate management of the audited entity took corrective action to address and remedy the deficiency, or the deficiency no longer exists.
- **Partially resolved findings** indicate management took significant action to address the deficiency but has not implemented all corrective action or remedied all aspects of the deficiency.
- **Repeated findings** indicate that management did not resolve the deficiency, and the deficiency continues to exist.

Analysis of County Audit Findings Resolutions

The Division of Local Government Audit audits 90 of the state’s 95 counties each fiscal year¹⁹ and publishes an Annual Financial Report for each county with the status of prior audit findings listed in the Summary Schedule of Prior-year Findings section. We provide an example of one of these summaries in Appendix 5.

We analyzed a total of 180 county audit reports that the division completed for fiscal years 2019 and 2020. Of those 180 reports, 154 reports included a total of 558 prior audit findings.²⁰

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¹⁹ Audits in the remaining five counties (Davidson, Hamilton, Knox, McMinn, and Shelby counties) are conducted by private accounting firms through a contract process.
²⁰ The remaining 26 reports did not have any prior audit findings.
We analyzed the division’s follow-up work and found that the majority of prior audit findings were either resolved or partially resolved. See Chart 1.

Chart 1  
Prior Audit Finding Results for Local Government Audits  
Fiscal Years 2019 and 2020

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolved</td>
<td>167</td>
<td>30%</td>
</tr>
<tr>
<td>Partially Resolved</td>
<td>29</td>
<td>5%</td>
</tr>
<tr>
<td>Repeated</td>
<td>362</td>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Auditor analysis based on review of the Division of Local Government Audit’s annual financial reports for fiscal years 2019 and 2020.

Analysis of State Performance Audit Findings Resolutions

The Division of State Audit’s performance audit reports each include a Prior Audit Findings section that describes the actions management has taken on prior findings and whether the findings were resolved, repeated, or partially resolved. We provide an example of a Prior Audit Findings section in Appendix 5.

We analyzed a total of 29 performance audits that the division released in fiscal years 2019 and 2020. Of the 29 reports, 22 reports included a total of 104 prior audit findings.\(^\text{21}\) Our analysis of these prior audit findings found that the majority were either resolved or partially resolved. See Chart 2.

\(^{21}\) The remaining 7 reports did not have any prior audit findings.
Analysis of State Financial and Compliance Audit Findings Resolutions

The Division of State Audit’s financial and compliance auditors document their follow-up on prior audit findings in their audit workpapers; the audit report does not list prior audit findings. To obtain the status of prior audit findings, we reviewed the audit documentation for each audit in our population.

We analyzed a total of 58 financial and compliance audits that the division released in fiscal years 2019 and 2020. Of the 58 reports, 25 reports included a total of 42 prior audit findings in their audit documentation. Our analysis of these prior audit findings found that the majority were either resolved or partially resolved. See Chart 3.

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22 The remaining 33 reports did not have any prior audit findings.
Source: Auditor analysis based on review of audit documentation for the Division of State Audit’s financial and compliance reports for fiscal years 2019 and 2020.
APPENDIX 1

Internal Control Significant to the Audit Objectives

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for federal entities and serves as best practice for non-federal government entities, including state and local government agencies. As stated in the Green Book overview,²³

Internal control is a process used by management to help an entity achieve its objectives . . . Internal control helps an entity run its operations effectively and efficiently; report reliable information about its operations; and comply with applicable laws and regulations.

The Green Book’s standards are organized into five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. In an effective system of internal control, these five components work together to help an entity achieve its objectives. Each of the five components of internal control contains principles, which are the requirements an entity should follow to establish an effective system of internal control. We illustrate the five components and their underlying principles below:

<table>
<thead>
<tr>
<th>Control Environment</th>
<th>Control Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: Demonstrate Commitment to Integrity and Ethical Values</td>
<td>Principle 10: Design Control Activities</td>
</tr>
<tr>
<td>Principle 2: Exercise Oversight Responsibility</td>
<td>Principle 11: Design Activities for the Information System</td>
</tr>
<tr>
<td>Principle 3: Establish Structure, Responsibility, and Authority</td>
<td>Principle 12: Implement Control Activities</td>
</tr>
<tr>
<td>Principle 4: Demonstrate Commitment to Competence</td>
<td>Principle 13: Use Quality Information</td>
</tr>
<tr>
<td>Principle 5: Enforce Accountability</td>
<td>Principle 14: Communicate Internally</td>
</tr>
<tr>
<td>Principle 6: Define Objectives and Risk Tolerances</td>
<td>Principle 15: Communicate Externally</td>
</tr>
<tr>
<td>Principle 7: Identify, Analyze, and Respond to Risks</td>
<td>Principle 16: Perform Monitoring Activities</td>
</tr>
<tr>
<td>Principle 8: Assess Fraud Risk</td>
<td>Principle 17: Evaluate Issues and Remediate Deficiencies</td>
</tr>
<tr>
<td>Principle 9: Identify, Analyze, and Respond to Change</td>
<td></td>
</tr>
</tbody>
</table>

In compliance with generally accepted government auditing standards, we must determine whether internal control is significant to our audit objectives. We base our determination of significance on whether an entity’s internal control impacts our audit conclusion. In the following matrix, we list our audit objectives, indicate whether internal control was significant to our audit objectives, and identify which internal control components and underlying principles were significant to those objectives.

²³ For further information on the Green Book, please refer to https://www.gao.gov/greenbook/overview.
<table>
<thead>
<tr>
<th>Internal Controls Over Key Processes</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<th>14</th>
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<th>16</th>
<th>17</th>
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<tbody>
<tr>
<td><strong>Significance</strong> 123456789 1 0 1 1 1 2 1 3 1 4 1 5 1 6 1 7</td>
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<td><strong>Internal Controls Over Key Processes</strong></td>
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<tr>
<td>Did the Division of Local Government Finance management establish internal controls within its key budget review approval process to fulfill the division’s responsibility under state statute and to achieve the division’s mission?</td>
<td>Yes</td>
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<td>Yes</td>
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<tr>
<td>Did management of the Division of Property Assessments establish a supervisory review process of the activities performed by division specialists to determine the accuracy of property assessments and the performance of the county assessors?</td>
<td>Yes</td>
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<tr>
<td>Did management of the Office of State Assessed Properties establish internal controls within its key ad valorem tax assessment review process to fulfill the division’s responsibility under state statute and to achieve the division’s mission?</td>
<td>Yes</td>
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<td>Yes</td>
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<tr>
<td><strong>Review of Revenue-Generating Capital Projects for Higher Education Institutions</strong></td>
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</tr>
<tr>
<td>Did the Division of State Government Finance design and implement a process to review revenue-generating capital projects on behalf of the Tennessee State School Bond Authority?</td>
<td>Yes</td>
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<td>Yes</td>
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<tr>
<td><strong>Improvements Made by State Entities and County Governments Based on Audit Results Reported</strong></td>
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</tr>
<tr>
<td>Did state agencies and county governments implement improvements based on the findings identified by the Divisions of State Audit and Local Government Audit in fiscal years 2019 and 2020?</td>
<td>No</td>
<td></td>
<td></td>
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</tbody>
</table>
APPENDIX 2
Boards, Commissions, and Committees

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

<table>
<thead>
<tr>
<th>Board, Commission, or Committee</th>
<th>Tennessee Code Annotated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory Council on State Procurement*</td>
<td>4-56-106</td>
</tr>
<tr>
<td>Advisory Council on State Procurement Subcommittee*</td>
<td>4-56-106(i)</td>
</tr>
<tr>
<td>Basic Education Program Review Committee</td>
<td>49-1-302</td>
</tr>
<tr>
<td>Board of Claims</td>
<td>9-8-101</td>
</tr>
<tr>
<td>Catastrophic Injuries Fund Commission‡</td>
<td>29-20-408</td>
</tr>
<tr>
<td>Chairs of Excellence Endowment Fund Board of Trustees</td>
<td>49-7-501</td>
</tr>
<tr>
<td>Council on Children’s Mental Health Care*</td>
<td>37-3-111</td>
</tr>
<tr>
<td>Council on Pension and Insurance†</td>
<td>3-9-101</td>
</tr>
<tr>
<td>Economic and Community Development Building Finance Committee **</td>
<td>7-86-302</td>
</tr>
<tr>
<td>Emergency Communications Board</td>
<td>68-11-1604</td>
</tr>
<tr>
<td>Health Services and Development Agency</td>
<td>68-11-1604</td>
</tr>
<tr>
<td>Information Systems Council†</td>
<td>4-3-5501</td>
</tr>
<tr>
<td>Local Education Insurance Committee</td>
<td>8-27-301</td>
</tr>
<tr>
<td>Local Government Insurance Committee</td>
<td>8-27-701</td>
</tr>
<tr>
<td>Ocoee River Recreation and Economic Development Fund Board</td>
<td>11-8-104</td>
</tr>
<tr>
<td>Pension Stabilization Reserve Trust</td>
<td>9-4-1002</td>
</tr>
<tr>
<td>Procurement Commission†</td>
<td>4-56-102</td>
</tr>
<tr>
<td>Public Records Commission</td>
<td>10-7-302</td>
</tr>
<tr>
<td>Regional Jail Authority (none have been created)</td>
<td>41-12-106</td>
</tr>
<tr>
<td>Simplified Sales and Use Tax discussion delegate</td>
<td>67-6-804</td>
</tr>
<tr>
<td>State Board of Equalization†</td>
<td>4-3-5101</td>
</tr>
<tr>
<td>State Building Commission†</td>
<td>4-15-101</td>
</tr>
<tr>
<td>State Capital Commission</td>
<td>4-8-301</td>
</tr>
<tr>
<td>State Funding Board†</td>
<td>9-9-101</td>
</tr>
<tr>
<td>State Insurance Committee</td>
<td>8-27-201</td>
</tr>
<tr>
<td>Tennessee Advisory Commission on Intergovernmental Relations†</td>
<td>4-10-103</td>
</tr>
<tr>
<td>Tennessee College Savings Trust</td>
<td>49-7-804</td>
</tr>
<tr>
<td>Tennessee Consolidated Retirement System Board of Trustees†</td>
<td>8-34-302</td>
</tr>
<tr>
<td>Tennessee Higher Education Commission†</td>
<td>49-7-204</td>
</tr>
<tr>
<td>Tennessee Higher Education Review Committee</td>
<td>49-7-202(g)(1)</td>
</tr>
<tr>
<td>Tennessee Highway Officials Certification Board*</td>
<td>54-7-104</td>
</tr>
<tr>
<td>Tennessee Housing Development Agency</td>
<td>13-23-106</td>
</tr>
<tr>
<td>Tennessee Interagency Cash Flow Committee*</td>
<td>9-4-610</td>
</tr>
<tr>
<td>Tennessee Local Development Authority</td>
<td>4-31-103</td>
</tr>
<tr>
<td>Tennessee Promise Scholarship Endowment Fund Trustee</td>
<td>49-4-708</td>
</tr>
<tr>
<td>Tennessee State School Bond Authority</td>
<td>49-3-1204</td>
</tr>
<tr>
<td>Tennessee Student Assistance Corporation</td>
<td>49-4-202</td>
</tr>
<tr>
<td>TRICOR Board Certification Committee*</td>
<td>41-22-119</td>
</tr>
<tr>
<td>Tuition Guaranty Fund Board</td>
<td>49-7-2018</td>
</tr>
<tr>
<td>Utility Management Review Board</td>
<td>7-82-701</td>
</tr>
<tr>
<td>Water and Wastewater Financing Board</td>
<td>68-221-1008</td>
</tr>
<tr>
<td>Workers Compensation Insurance Fund Board Review Committee‡</td>
<td>50-6-623</td>
</tr>
</tbody>
</table>

*The Comptroller does not serve but appoints a staff representative(s).
†Comptroller only, no proxy.
**Pursuant to Department of Economic and Community Development Rules 0500-2-1-.12(5).
‡Inactive.
Additionally, the Comptroller appoints

- a designee for the nonprofit Local Government Data Processing Corporation Board pursuant to the terms of its charter, and

- 10 members of the TennCare Prescription Drug Utilization Review Committee, created by Section 71-5-190, *Tennessee Code Annotated*. 
Source: Division of Local Government Finance.

The financial analysts in the Division of Local Government Finance use checklists in their budget review process. This example is page 1 of the 12-page Municipality Checklist. In addition to the checklist above, the division also has a checklist for county governments and another for utility districts. The financial analyst uses the checklist, the budget documents submitted by the local government entity including the certified copy of the appropriation act and tax levy, the budget summary schedule, and the cash flow forecast. The financial analyst also accesses and reviews the results of the most recent annual financial statement filed with the Division of Local Government Audit.
This is the first page of the Monitoring Worksheet the Division of Property Assessments (DPA) uses to document results of visual inspection reports, sales verification reports, and other monitoring activities. The visual inspection report documents information on visually inspected properties and any errors noted. Sales monitoring reports document the results of the DPA specialists’ review of a sample of property sales and the comparison of the records of the assessor’s office and the county’s register’s office and any errors noted. Additionally, the worksheet indicates that the results have been shared with the county assessor, with the signatures of the DPA regional office manager and the county assessor.
Office of State Assessed Properties
Ad Valorem Tax Report

STATE OF TENNESSEE
2021
AD VALOREM TAX REPORT

The Ad Valorem Tax Report is completed by the individual company or entity under assessment. The tax report requires the following information:

- identifying information (company legal name, address, and contact information);
- financial information (own or lease equipment, gross revenues, and net operating income);
- physical location of equipment;
- property under construction; and
- attestation that information provided is accurate and factual (signed and notarized).


**This report must be filed with this office by April 1, 2021**

Source: Office of State Assessed Properties.
APPENDIX 4
Tennessee State School Bond Authority Project Application

Tennessee State School Bond Authority
Project Application

DEPARTMENT:  Tennessee Board of Regents

INSTITUTION/LOCATION:  ________________________________________________

PROJECT:  ____________________________________________________________

SBC PROJECT #:  ______________________

PROJECT BUDGET:

<table>
<thead>
<tr>
<th>Funding Sources:</th>
<th>Original</th>
<th>Revised</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSSBA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PROJECT REVENUES:  (Describe sources and projected levels)

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________

PROJECT LIFE:

Anticipated Useful Life of Project:  ________________________________

Desired Term for Financing (if less than useful life):  __________________

ESTIMATED ANNUAL FINANCING CHARGE:  $__________

PROJECT APPROVAL DATES:

BOARD:  __________
THEC:  __________
SBC:  __________

Disclosed in the Governor’s Budget:  ___ Yes  ___ No  If yes, what year?  _______
Disclosed as TSSBA Funding:  ___  ___
Match Project  ___  ___
PROJECT DESCRIPTION: Physical description, including land, buildings and equipment with approximate dollar value. (If a renovation or repair project, please provide information with respect to the renovated or improved portion as well as the entire structure.)

REAL ESTATE:

Owner of real property

To be acquired

To be leased or other arrangement

The purpose of the following questions are to determine the tax status of this project to be financed with the proceeds of Tennessee State School Bond Authority Bonds and/or Bond Anticipation Notes and the amount of private use associated with this project. Private use means the direct or indirect use of the project by any entity other than a state or local government entity, including use by the Federal Government (including its agencies and instrumentalities) or a Section 501(c)(3), (c)(4), or (c)(6) organization. When the project consists of an improvement that does not involve space that is being used directly by governmental or private users (for example, a re-roofing, air conditioning or energy efficiency improvement), all questions involving uses and users of the project should be answered by reference to all portions of the facility or facilities benefited by the improvement.

The questions below relate to the project referenced above. Attach additional sheets as required. Please make a copy of this document for your files.

1. Project Status: (If the project has already been completed, and the proceeds are being used to reimburse the department, please so indicate and include date of project completion.)

2. Project completion estimated to be:

3. Project Owner:

4. Project Operator (see also item 8 below):

5. Intended Use of the Project:
6. Intended Users of the Project (excluding use by the general public): __________________________

7. Indicate whether any of the following activities will take place at the project. Indicate whether the activities are operated by a private entity or will indirectly benefit a private entity. Include all incidental private uses. For each direct or indirect private use of the project, indicate the total amount of space the private use occupies in relation to the entire project. (For example, if an area of vending machines operated by a private contractor occupies 50 square feet of a 5,000 square foot area financed, indicate the relationship in terms of the ratio of square footage used.)

   Gross Square Footage of Building _________ (See Supporting Data Sheet if more than one building is involved.)

   A. Vending Machines:
      Square Footage ________________
      Operator ______________________

      Are any vending areas separated by walls, night gates, etc. so that they are under the control of the service provider/operator? ______________________

   B. Wholesalers or retailers (e.g., Newsstand, Book Store, Pharmacy, etc.):
      Square Footage ________________
      Type ________________________
      Operator ____________________

   C. Laundry Services:
      Square Footage ________________
      Operator ______________________

      Are any laundry service areas separated by walls, night gates, etc. so that they are under the control of the service provider/operator? ______________________

   D. Cafeteria or other food services areas:
      Square Footage ________________
      Operator ______________________

   E. Provision of health care services:
      Square Footage ________________
      Operator ______________________

   F. Laboratory research performed on behalf of or for the benefit of a private entity or pursuant to a cooperative research agreement:
      Square Footage ________________
      Recipient ______________________
G. Office space utilized by or on behalf of private entities:
   Square Footage
   Occupant

H. Provision of housing for persons or entities other than enrolled students:
   Square Footage

8. Attach copies of any management contracts or incentive payment contracts entered into, or to be entered into, in connection with the operation of the project. (Do not include contracts for services that are solely incidental to the primary governmental functions of the facility (for example, contracts for janitorial, office equipment repair or similar services). Indicate the portion of the project to which the contracts relate. Give the usable square feet involved compared to the total usable square feet of the facility being financed. If a contract has not been entered into but is anticipated, indicate that fact.

9. Will any debt proceeds be used to make or finance loans to any private entity? If so, indicate the amount of such loans, the length and payment terms of such loans:

10. Indicate any expected payments (direct or indirect) to be made by non-governmental entities, separately and in the aggregate, to the State or any other governmental entity, with respect to the project.

11. Additional information not explained above.

Completed this ______ day of __________, ______.

__________________________________________  ________________________________________
Flora Tydings                                   Dick Tracy, Executive Director
Chancellor                                     Office of Facilities Development

__________________________________________
Danny Gibbs, Vice Chancellor for
Business & Finance

Page 4 of 5  3/29/2011
This is a five-page application that higher education institutions complete and submit to the Division of State Government Finance for the feasibility test. The application requires a project description, such as details on the land, buildings, and equipment with approximate dollar value, the owner of the real estate, and details of the cost and funding. A letter is sent with the application from the institution with details of the status of the project.
APPENDIX 5
Examples of Reporting of Prior Audit Finding Resolutions

Division of Local Government
Summary Schedule of Prior-Year Findings

Fentress County, Tennessee
Summary Schedule of Prior-year Findings
For the Year Ended June 30, 2019

Government Auditing Standards require auditors to report the status of uncorrected findings from prior audits. In addition, OMB's Uniform Guidance requires auditees to report the status of all prior-year findings whether corrected or not. Presented below are financial statement findings along with their current status from the Annual Financial Report for Fentress County, Tennessee, for the year ended June 30, 2019.

Prior-year Financial Statement Findings

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Page Number</th>
<th>Finding Number</th>
<th>Title of Finding</th>
<th>CFDA Number</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>198</td>
<td>2018-001</td>
<td>Operations of the Finance Office are currently being reviewed</td>
<td>N/A</td>
<td>Corrected</td>
</tr>
<tr>
<td>2018</td>
<td>198</td>
<td>2018-002</td>
<td>The Home Investment Partnerships Grant Program Fund and the Pall Mail Emergency Center Fund had deficits in unassigned fund balance at June 30, 2018</td>
<td>N/A</td>
<td>Corrected</td>
</tr>
<tr>
<td>2018</td>
<td>199</td>
<td>2018-003</td>
<td>The Home Investment Partnerships Grant Program Fund had a cash overdraft of $41,050 at June 30, 2018</td>
<td>N/A</td>
<td>Corrected</td>
</tr>
<tr>
<td>2018</td>
<td>199</td>
<td>2018-004</td>
<td>General ledger payroll liability accounts were not reconciled monthly</td>
<td>N/A</td>
<td>Not Corrected - See Explanation on Corrective Action Plan</td>
</tr>
</tbody>
</table>

Prior Audit Findings

Section 8-4-109(c), Tennessee Code Annotated, requires that each state department, agency, or institution report to the Comptroller of the Treasury the actions taken to implement the recommendations in the prior audit report. The prior audit report was dated November 2016 and contained six findings. The Department of General Services, including the Central Procurement Office, filed its report with the Comptroller of the Treasury on May 1, 2017. We conducted a follow-up of the prior audit findings as part of the current audit.

Resolved Audit Findings

The current audit disclosed that the Department of General Services resolved the previous audit findings regarding:

- STREAM executive leadership’s responsibilities over establishing and updating processes, policies, and procedures and providing adequate direction to staff relating to the state leasing processes;
- STREAM’s responsibilities to ensure that Jones Lang Lasalle submitted all monthly reports and performed property inspections as required by the state’s facilities management contract; and
- the surplus property program’s backlog of surplus property retirements in Edison.

Partially Resolved Audit Findings

The prior audit report also contained findings stating that:

- the Central Procurement Office (CPO) did not develop an effective method to identify and track the state’s grant recipients and subrecipients and their expenditures;
- when executing lease procurements, STREAM management did not comply with State Building Commission Policy or department policies and procedures; and
- STREAM’s lease management team failed to effectively track and address the state’s leases before they expired.

Source: Department of General Services Performance Audit Report, August 2019.