

Auditing by Contract

Jean Suh and Lisa Bellar

Division of Local Government Audit

1.29.26

TENNESSEE COMPTROLLER OF THE TREASURY



Auditing by Contract

Why
Contract
for Audits

Contract
Process

Managing
Risks

TENNESSEE COMPTROLLER OF THE TREASURY



Disclaimer

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

TENNESSEE COMPTROLLER OF THE TREASURY





Jason E. Mumpower

Comptroller of the Treasury of the State of Tennessee

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

TENNESSEE COMPTROLLER OF THE TREASURY

Division of Local Government

Jim Arnette, CISA, CGFM
Director



County Field Auditors

- Perform annual financial and compliance audits of 91 counties.

Contract Audit Review Team

- Contracts with independent CPA firms to audit local governments (municipalities, utility districts, housing authorities, internal school funds, etc.) and certain nonprofit and for-profit entities.
- Performs audit report reviews and contracted CPA firms' audit documentation reviews.



TENNESSEE COMPTROLLER OF THE TREASURY

Resources

Go to Comptroller.TN.gov

Search Website

Local Government Audit

Resources

COT Cyber Aware

Cyber Aware Tips

Cyber Aware Videos

Cyber Aware Resources

Welcome

Information Systems Best Practices

Accounting & Auditing Information

Area Contacts

Chart of Accounts

Municipal Chart of Accounts

County Chart of Accounts

Manuals

Audit Manual

Internal Control And Compliance Manual

Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts

Confidential Drug Funds Manual

School Support Organizations

Internal School Funds Manual

Volunteer Fire Department Manual

Official Statutory Bonds

Training Opportunities

Free CPE Training

Manuals

Audit Manual
AUDIT MANUAL

Markup Version - September 2025

PDF Version - September 2025

Internal Control And Compliance Manual
INTERNAL CONTROL AND

PDF Version - December 2015

Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts
ACCOUNTING AND FINANCIAL REPORTING MANUAL

PDF Version - Amended 2022

Confidential Drug Funds Manual
PROCEDURES FOR HANDLING

PDF Version - June 2021

School Support Organizations
PROCEDURE MANUAL

PDF Version - May 2020

Internal School Funds Manual
INTERNAL SCHOOL FUNDS MANUAL

PDF Version - July 2025

School Support Organizations Procedure Manual Video

Internal School Funds FAQs - July 2025

Division of Local Government Audit

Contract Audit Contact Information by Area

Senior Contract Audit Review Specialists

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

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

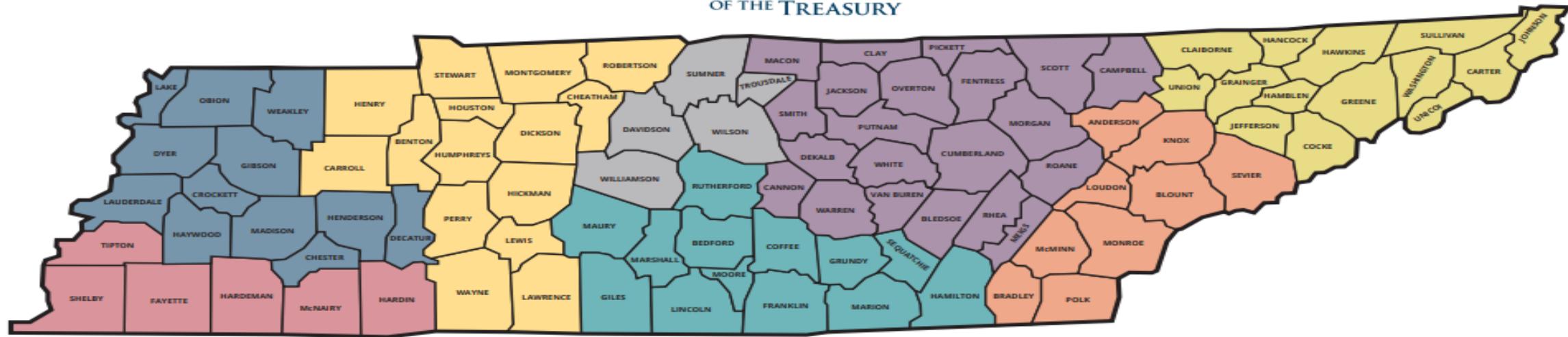
425 Rep. John Lewis Way N., Nashville, TN 37243
P: 615.401.7841 • F: 615.741.6216



Director
Jim Arnette, CISA, CGFM
Jim.Arnette@cot.tn.gov

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

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



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

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

AREA 3
Ana Brantley, CPA, CGFM
Contract Audit Review Specialist
Ana.Brantley@cot.tn.gov
P: 615.747.5242

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

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

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

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

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

March 2025

1700

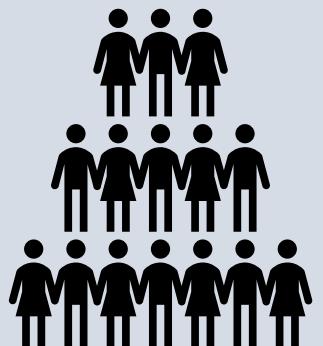


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Why?

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Contract and Report System (CARS)

Contract and Report System (CARS)

[Log In to an Existing Account](#)

[Sign Up for a New Account](#)

Helpful Links

[Sample Contract to Audit Accounts](#)

[Sample Contract Amendment](#)

[Electronic Filing Guidelines](#)

[User's Manual](#)

[Contacts for Assistance](#)

[Peer Review Guidance](#)

Welcome to CARS - Contract and Report System

The Tennessee Comptroller's Automated Reporting System

This site is intended to be used by certified public accountants and entities doing business with our office

What you can do:

Certified Public Accountants

- Start and manage audit contracts between entities and your firm.
- Update your address, email, and other firm information.
- Update and submit recent peer review information.
- Upload financial information: financial and single audit reports, management letters, governance letters, etc.

Entities Doing Business with our Office

- Start and manage audit contracts between your organization and an independent CPA.
- Update your address, email, and other organization information.
- Upload certain financial information as requested by our office. (Note: If you have a contract to audit accounts approved by the TN Comptroller, the CPA must file the audit report.)

You need to be registered to use this system. Please be aware that you will need to have an e-mail account to sign up. Click the "Sign Up" button to create an account.

****Warning! Please be aware that the system will log you out after 20 minutes of inactivity.****

This web site is best viewed in either Internet Explorer version 6 or later or Mozilla Firefox version 3 or later.

This site makes extensive use of pop up windows. Please turn off your pop-up blocker to fully use this site.

Contract and Report System (CARS)

Main Menu

1. Account Information

[Manage my Account](#)

(upload peer review information and change address, email, etc.)



[Manage all Accounts for my Business](#)

(status and signature authority for all accounts)

[Admin users for my business](#)

[Go to the Peer Review section of my Account](#)

[Upload Financial Information](#)

(financial and single audits, mgt letters, etc.)



[Report Submission History](#)

2. Contract to Audit Accounts

[Create Audit Contract](#)



[Manage Audit Contracts](#)

(list of all contracts ~ completed and in-progress)

Number of contracts pending my action: 1

Number of contracts pending action from the second party: 4

[Create Contract Amendment](#)

(changes or additions to an outstanding Contract to Audit Accounts)



[Manage Contract Amendments](#)

Number of amendments pending my action: 2

Number of amendments pending action from the second party: 3

[City/Municipality Information](#)

(mayor, city recorder, CMFO, compliance status, etc.)





JASON E. MUMPOW
Comptroller

December 3, 2025

MEMORANDUM

TO: Political Subdivisions and Other Quasi-Governmental Organizations

FROM: Jean Suh, CPA, CFE, CGFM
Contract Audit Review Manager
Division of Local Government Audit

SUBJECT: Annual Audit Requirement for 2026 Fiscal Year

According to our records, your organization is statutorily required to have an annual audit in accordance with the requirements of the Tennessee Comptroller of the Treasury. Pursuant to that requirement, we are requesting that you execute an audit contract for your organization's 2026 fiscal year. Contracts must be approved by this office prior to the performance of any audit work. If you believe our records are incorrect and that you are not subject to an annual audit, please contact us so we can reevaluate your audit requirement.

The uniform contract to audit accounts should be executed as soon as possible and must be executed through the Contract and Report System ([CARS](#)). If you have not already created an account in CARS or are unfamiliar with the contracting process, please refer to the helpful links on the website for guidance. Once the contract has been reviewed and approved, an email will be sent to you and the independent certified public accounting firm that you have selected to perform the audit. The email will notify you that the contract has been finalized and is accessible through CARS.

If you need to contact our office, please call 615.401.7909 or email Tammy.Steele@cot.tn.gov. You may also send a response to this letter to the Tennessee Comptroller of the Treasury Division of Local Government Audit, Cordell Hull Building 425 Rep. John Lewis Way North, Nashville, TN 37243.

Contracting

Contract request letters are sent out 3 to 5 months before FYE

Entity selects an audit firm

Audit firm or the entity initiates the contract, and all parties sign the contract

Audit work can begin

Contracting - Miscellaneous

- ★ Audits must be performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and requirements detailed in the TN Comptroller's *Audit Manual*.
- ★ When applicable, the audit should be conducted in accordance with the Single Audit Act and Uniform Guidance.
- ★ A CPA firm must perform the audit.
- ★ The audited financial report should be submitted to the Comptroller's office within 6 months following the fiscal year end.

Managing Risks



Audit Compliance



Audit Quality



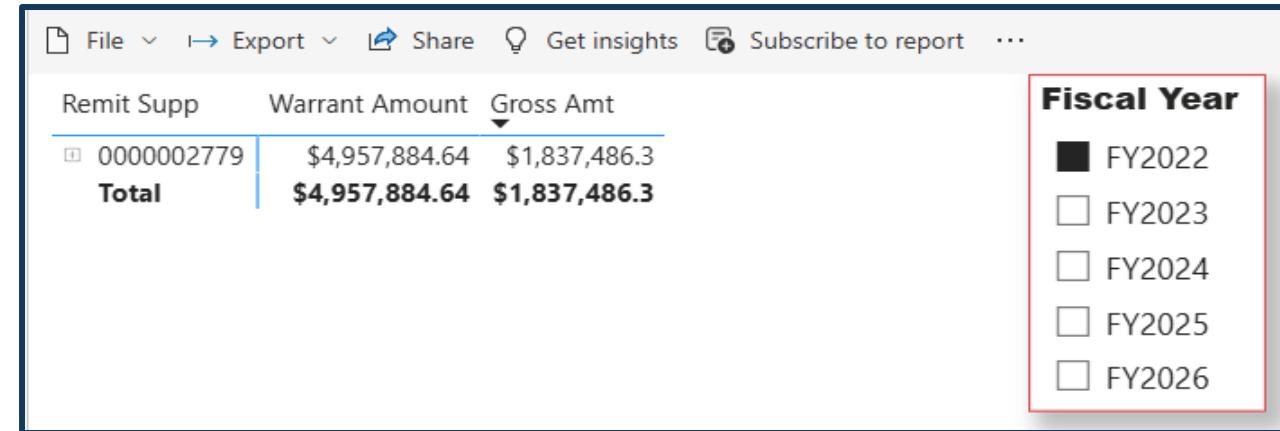
Late Audits

TENNESSEE COMPTROLLER OF THE TREASURY



Risks – Audit Compliance

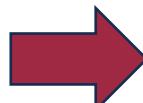
Grant Payments



A screenshot of a Microsoft Excel-like spreadsheet showing grant payments. The columns are labeled 'Remit Supp', 'Warrant Amount', and 'Gross Amt'. The data shows one row for '0000002779' with a 'Warrant Amount' of '\$4,957,884.64' and a 'Gross Amt' of '\$1,837,486.3'. Below this is a 'Total' row with the same values. The 'Total' row is bolded. The 'Gross Amt' column is also bolded. The 'Warrant Amount' column has a downward arrow indicating it is a sum of multiple rows. The 'Remit Supp' column has a small square icon. The top of the spreadsheet has a navigation bar with 'File', 'Export', 'Share', 'Get insights', 'Subscribe to report', and other options. To the right of the spreadsheet is a legend titled 'Fiscal Year' with options for FY2022 through FY2026, where FY2022 is selected.

Remit Supp	Warrant Amount	Gross Amt
0000002779	\$4,957,884.64	\$1,837,486.3
Total	\$4,957,884.64	\$1,837,486.3

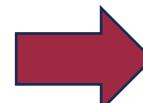
Note Disclosure



E. Joint Ventures

Madison County and the city of Jackson jointly operate the Jackson-Madison County Airport Authority, Jackson-Madison County Community Economic Development Commission, Jackson-Madison County General Hospital, and Jackson-Madison County Library. The boards of the Airport Authority, General Hospital, Community Economic Development Commission, and Jackson-Madison County Library each comprise five members who are alternately appointed each year by Madison County and the city of Jackson.

New Laws



Tenn. Code Ann. § 64-8-101

[Copy Citation](#)

Current through the 2025 Regular Session.

[Tennessee Code Table of Contents PAW- ET TABLE OF CONTENTS](#) > [Title 64 Regional Authorities](#) > [Chapter 8 Regional Transportation Authorities](#) > [Part 1 Regional Transportation Authority of Middle Tennessee](#)

64-8-101. Creation.

Risks – Audit Compliance

Contracts, Audits and Regulatory Tracking

Audits

- ◆ Contracted Entities
- ◆ Not-for Profit Entities
- ◆ Annual Confirmation
- ◆ File-only Reports

Other

- ◆ Statutory Filings
- ◆ Compliance with Laws
- ◆ CPA Firms

Risks – Audit Quality

- *Government Auditing Standards*
- Audit report reviews
- Audit documentation reviews
- Team Evaluation

Risks – Audit Quality



**TENNESSEE
COMPTROLLER
OF THE TREASURY**

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT

June 2020

COMPTROLLER'S GUIDELINES

Evaluation of Contracted Auditors with Deficient Peer Review (PR) / Audit Documentation Review (ADR) / Compliance with Contract to Audit Accounts and/or Audit Manual

The following table and proposed actions are utilized by our office in evaluating the results of peer reviews, audit documentation reviews, and compliance with the Contract to Audit Accounts and/or *Audit Manual*.

Possible Actions for Identified Conditions:

(Fail, Pass with Deficiencies, Significant or Numerous Review Comments, Lack of Compliance with Contract to Audit Accounts and/or *Audit Manual* Requirements)

(See Table)

A: Accelerate Review (ADR)
Change (accelerate) the normal Audit Documentation Review (ADR) cycle of the firm.

B: Pass Rating Next Peer Review
Require that a "pass" rating be received on the firm's next peer review.

C: No Action Based on TSCPA Follow-Up
No action taken based on the Tennessee State Society of CPAs (TSCPA) (or other regulatory body) peer review committee's corrective action(s) required. Our office will require documentation demonstrating that the required corrective actions were performed and accepted by the committee.

D: Additional CPE
Require a partner with the firm to sign a document agreeing that all or some of the members of the audit team be required to take additional CPE in the area(s) where audit documentation or peer review deficiencies were noted.

E: Contracted Independent ADR Before Release
Require a partner with the firm to sign a document agreeing to hire an independent CPA firm to review the work of each audit conducted on behalf of the Comptroller's Office for a specified time frame, a specified number of audits, or until otherwise notified. Results of any pre-issuance review must be submitted to the Comptroller's Office.

F: Limitation of Contracted Audits
Limit the audits that may be conducted by the firm to a certain number of audits and/or to a specific entity type.

G: Honor Current Contracts Only
Honor all outstanding Contracts to Audit and not approve any further Contracts to Audit submitted by the firm.

H: Rescind Outstanding Audit Contracts
Rescind all outstanding Contracts to Audit on file for the firm and no longer approve Contracts to Audit submitted by the firm.

I: Other
Any other action(s) agreed on by the Comptroller's Office.

Table: Comptroller Guidelines for Evaluating the Results of Peer Reviews (PR), Audit Documentation Reviews (ADR), and Compliance with Contract to Audit Accounts and/or Audit Manual

Possible Action Can Be Any Marked Action Below or a Combination of Marked Actions									
Condition/Possible Action	A: Accelerate Review (ADR)	B: Pass Rating Next Peer Review	C: No Action Based on TSCPA Follow-Up	D: Additional CPE	E: Contracted Independent ADR Before Release (1)	F: Limitation of Contracted Audits	G: Honor Current Contracts Only	H: Rescind Outstanding Audit Contracts	I: Other
Peer Reviews (PR)									
Fail rating	X	X	X	X	X	X	X		X
Fail rating – two consecutive cycles								X	X
Pass with deficiencies – two consecutive cycles	X	X	X	X	X	X	X		X
Pass with deficiencies – prior review had a fail rating	X	X	X	X	X	X	X		X
Comptroller Audit Documentation Reviews (ADR)									
Significant comments (while firm is on a normal review cycle)	X								X
Significant comments (while firm is on an accelerated review cycle)	X			X	X	X	X		X
Numerous significant comments (while firm is on a normal review cycle)				X	X	X	X		X
Numerous significant comments (while firm is on review before release process)							X	X	X
Other									
Receive significant comment(s) from Independent CPA Firm ADR before release	X			X	X	X	X		X
Contract to Audit Accounts and Audit Manual Compliance									
Consistent late submission of audit report(s).						X	X		X
Lack of compliance with <i>Audit Manual</i> requirements.						X	X	X	

(1) Review conducted by an independent accounting firm hired by a CPA to comply with the Comptroller's Office's request.

Risks – Late Audits

- ➊ Follow up, follow up, follow up
- ➋ Help
- ➌ Motivation

Public Chapter 18 — Municipal Audit Penalties

Risks – Late Audits



Municipalities with 2+ outstanding late audits



Up to 15% of annual sales tax revenue withheld



Amends TCA Title 6, Chapter 56, Part 1



Effective July 1, 2025



TENNESSEE BUDGET MANUAL FOR LOCAL GOVERNMENTS



*Approved by the State Funding Board
June 2025*

Not Approved: A budget that is not approved may be the result of a delinquent budget, a delinquent audit, continued noncompliance issues while under the oversight of the Tennessee Board of Utility Regulation, noncompliance with the Certified Municipal Finance Officer Act, noncompliance with statutorily-required utility training, or failure to meet conditions for approval. State legislators have recognized the importance of having an approved budget by passing legislation specifying that if your budget is not approved, your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**



Jean Suh, CPA, CFE, CGFM

Contract Audit Review Manager

Comptroller of the Treasury

Division of Local Government Audit

Jean.Suh@cot.tn.gov

615.401.7919

Lisa Bellar, CPA, CGFM

Senior Contract Audit Review Specialist

Comptroller of the Treasury

Division of Local Government Audit

Lisa.Bellar@cot.tn.gov

615.401.7854

Thank You!

