

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

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.



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

**Local Government
Audit**







Go to Comptroller.TN.gov

Search Website

Home About Us Office Functions Boards Find a Report Maps Careers News Contact Us

Resources

Manuals

 Audit Manual Markup Version - September 2025 PDF Version - September 2025	 Internal Control And Compliance Manual PDF Version - December 2015
 Accounting and Financial Reporting Manual for Tennessee Emergency Communications Districts PDF Version - Amended 2022	 Confidential Drug Funds Manual PDF Version - June 2021
 School Support Organizations PDF Version - May 2020 School Support Organizations Procedure Manual Video	 Internal School Funds Manual PDF Version - July 2025 Internal School Funds FAQs - July 2025

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

**Senior Contract Audit
Review Specialists**

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**Division of
Local Government Audit**

Contract Audit Contact Information by Area

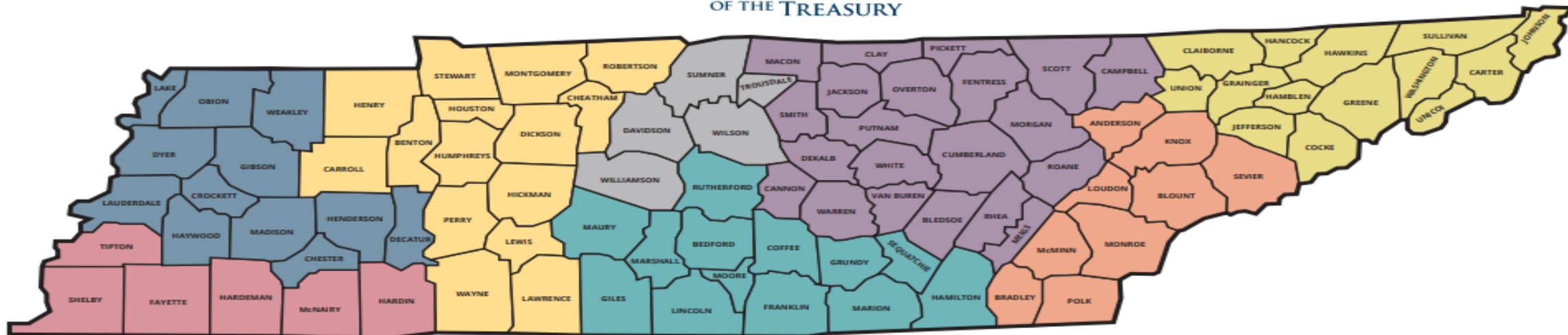
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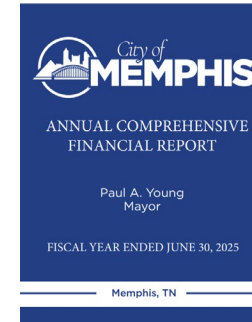
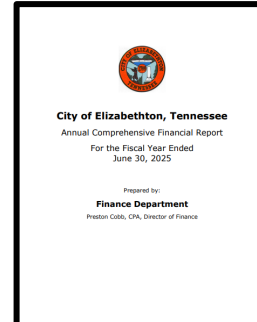
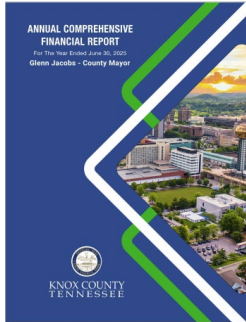
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1700

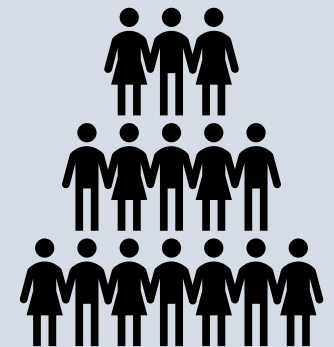


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Why?

113



Contract and Report System (CARS)



Local Government Audit

TN Comptroller of the Treasury Local Government Audit

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.

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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. MUMPOWER
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



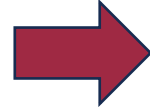
Audit Quality



Late Audits

Risks – Audit Compliance

Grant Payments

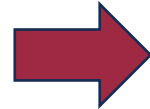


File Export Share Get insights Subscribe to report		
Remit Supp	Warrant Amount	Gross Amt
0000002779	\$4,957,884.64	\$1,837,486.3
Total	\$4,957,884.64	\$1,837,486.3

Fiscal Year

- ☒ FY2022
- ☐ FY2023
- ☐ FY2024
- ☐ FY2025
- ☐ FY2026

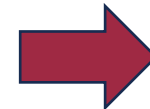
Note Disclosure



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



Purpose

To ensure that the work conducted by public accounting firms on behalf of the Comptroller's Office meets the requirements of *Government Auditing Standards*, Uniform Guidance, the Contract to Audit Accounts, and the Comptroller's *Audit Manual*.

Guidelines

Audit firms will be evaluated based on any or all of the following:

- peer review(s),
- audit documentation review(s),
- compliance with the Contract to Audit Accounts,
- compliance with the *Audit Manual*.

The Comptroller's Office will formulate an action plan based on the evaluation. Typical actions are outlined in our "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*" table.

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
<i>Peer Reviews (PR)</i>									
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
<i>Comptroller Audit Documentation Reviews (ADR)</i>									
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
<i>Other</i>									
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.

<https://comptroller.tn.gov/content/dam/cot/la/documents/guidance/general-guidance/PeerReviewGuidelinesJune2020.pdf>

Risks – Late Audits

- 🌟 Follow up, follow up, follow up
- 🌟 Help
- 🌟 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*

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF
LOCAL GOVERNMENT FINANCE

Risks – Late Audits

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.



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Thank You!

