

Internal Controls and Compliance:

A Survival Guide for Admin Professionals

December 4, 2025

Justin Garcia

Matt Piland, CMFO

Division of Local Government Audit

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.



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



Tennessee Comptroller of the Treasury

- Administration
- Health Provider Review
- Investigations
- Local Government Audit
- Local Government Finance
- Management Services
- Property Assessments
- Research and Education Accountability
- State Audit
- State Assessed Properties
- State Board of Equalization
- State Government Finance
- Technology Solutions

TENNESSEE COMPTROLLER OF THE TREASURY



Division of Local Government Audit

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



Contract Audit Review

Jean Suh, CPA, CFE, CGFM
Contract Audit Review Manager



- Contract Approval
- Workpaper Review Determination
- Strategic Goal Monitoring
- Research/Consulting
- Assisting Upper Management and Reviewers

TENNESSEE COMPTROLLER OF THE TREASURY



Contract Audit Review

Tammy Steele
Project Assistant



- Sending out annual audit contract requests
- Managing Contract And Report System (CARS)
- Following-up on late contracts and audit reports

**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

**Division of
Local Government Audit**

Contract Audit Contact Information by Area

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 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

Matt Piland



Bethany Wilson



Sue Ann Odom



Mark Fawver



Sara Pope



Lori Cantrell



Justin Garcia

Where are we going today?

- Why are internal controls important?
- What are internal controls?
- Practical considerations for utility districts

Why are internal controls important?



Utility District Investigations



29 Investigate reports released since 2016 totaling \$21 million in fraud, waste, and abuse.

Deficiency 1: District officials did not provide adequate oversight of payroll and checks

District officials did not provide adequate oversight of the payroll process and checks. District officials are responsible for designing internal controls to give reasonable assurance of the reliability of financial reporting and the effectiveness and efficiency of operations. The lack of oversight by the board of commissioners led to failures in the following areas:

- The former bookkeeper was not required to submit timesheets, and thus there was no board approval of hours worked. The board did not ensure that garnishments were appropriately deducted from the former bookkeeper's wages. Sound business practice dictates that payroll records be properly reviewed and approved. The board's failure to review and approve timesheets and pay stubs increases the risk of improper payroll payments.

Deficiency 1: The district failed to maintain supporting documentation for some disbursements

The district failed to maintain supporting documentation for numerous disbursements, including a period of 18 consecutive months during which investigators could not locate any documentation of disbursements. Requiring and maintaining adequate documentation, such as invoices or receipts, allows the board members to verify that all disbursements are proper and for the exclusive benefit of the district, and decreases the risk of errors or misappropriations occurring without prompt detection.

Deficiency 2: The board failed to document internal controls

The board failed to document internal controls over district operations. Tenn. Code Ann. § 9-18-102(a)(2) requires that utility districts "establish and maintain internal controls, which shall provide reasonable assurance that...funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation." The *Internal Control and Compliance Manual* prepared by the Comptroller's Office maintains that "developing an adequate internal control system requires written documentation as well as continual analysis and modification to address changing circumstances." The lack of documented internal controls increased the risk of fraud, waste, and abuse.

Deficiency 4: The district's travel budget grew over 400% in ten years and includes questionable expenditures of district funds

In 2009, a year that was included in the 2011 investigative audit of the district performed by the Comptroller's Office, the audited travel expenses totaled \$35,161. By 2019, travel expenses had increased to \$210,534, a 498.7% increase from 2009. An analysis by year of audited travel expenses for July 1, 2016, to June 30, 2019, showed the combined travel cost for these 36 months was \$520,486 which averaged \$14,457.94 per month. Investigators reviewed the district's American Express charges and determined that during the scope of the investigation, the district paid for employees to travel to various cities across the United States, including San Francisco, Seattle, St. Petersburg, Destin, Louisville, Charlotte, Orange Beach, Fort Meade, and Phoenix. Management should review travel expenses to determine if they are necessary for each of their employees.

Deficiency 4: The district manager did not maintain an equipment inventory list and supporting documentation for numerous disbursements

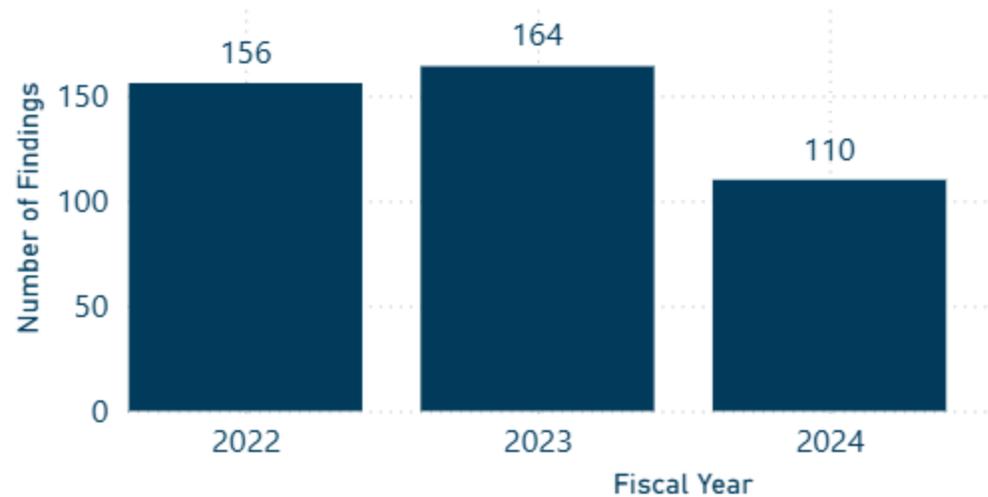
The district manager did not maintain an equipment inventory list and supporting documentation for numerous disbursements. Investigators could not determine if equipment was missing or whether certain undocumented disbursements were for the benefit of the district. Requiring an equipment inventory list and supporting documentation, such as invoices or receipts, allows management to verify the accuracy of equipment on-hand and that all disbursements are proper.

Deficiency 2: The board of commissioners failed to provide adequate oversight of payroll

The board of commissioners failed to adequately oversee payroll-related payments. As noted in the Results of Investigation section, the manager and supervisor did not comply with the district's vacation and sick leave policies for at least four years. This noncompliance allowed the employees to receive benefits they were not authorized to receive and to receive benefits at an accelerated rate. The two employees received additional payroll checks for their redeemed leave during the period January 2016 through August 2019 totaling \$33,621 for vacation leave and \$12,184 for sick leave. A cursory review of payroll records or bank statements could have revealed this noncompliance. Failing to oversee and monitor payroll transactions increases the risk that noncompliance with approved policies will occur and not be detected in a timely manner.

Utility District Audit Findings

Total Findings by Year



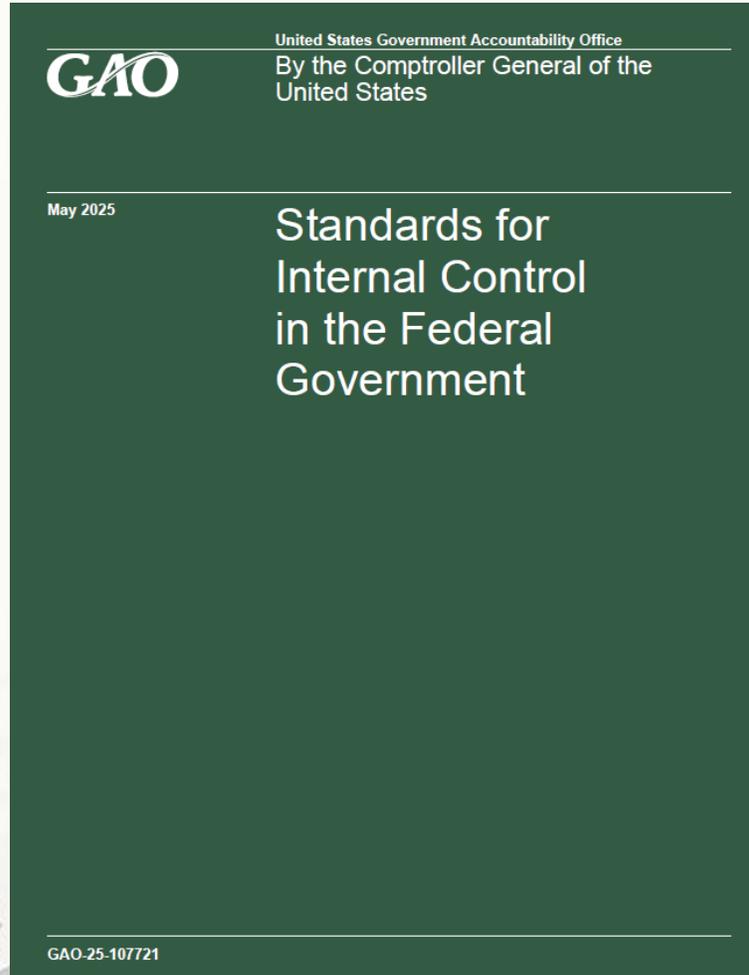
Reports by Number of Findings

2024		
# Findings	Number of Reports	%
0	75	4.8%
1	48	3.1%
2	21	1.3%
3-5	6	0.4%
	150	9.5%

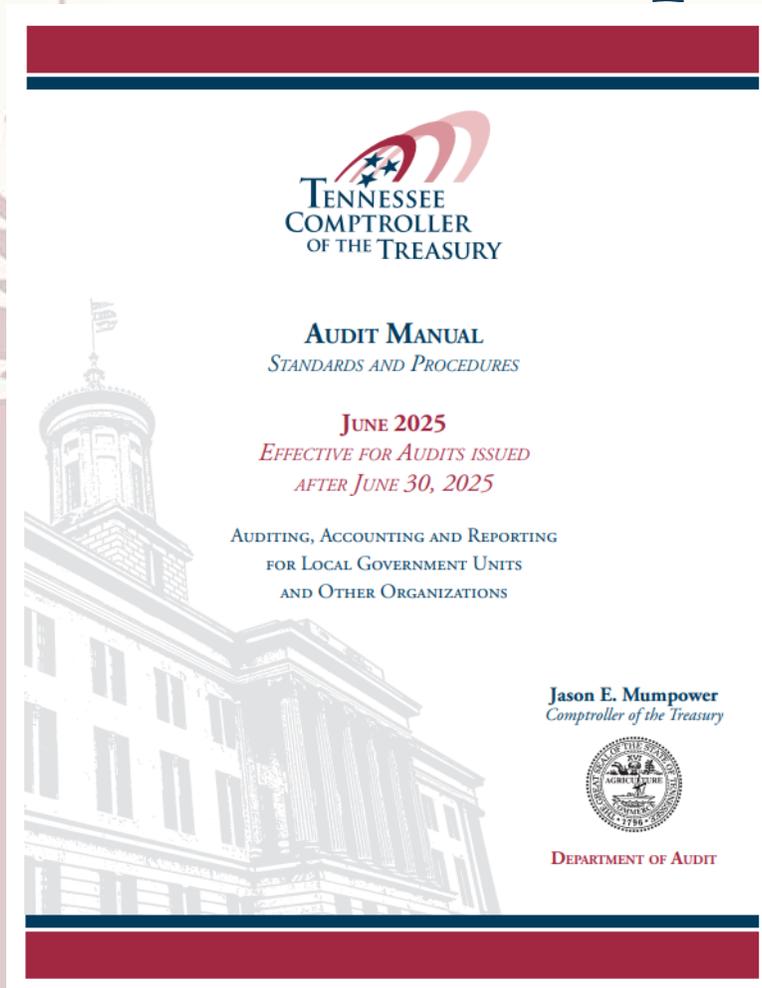
What are internal controls?



GAO's Green Book



Manuals Provided by the Comptroller's Office





Search bar with microphone, image, and AI Mode icons

Google Search I'm Feeling Lucky

What are internal controls?

Internal control is a process that is developed by the entity to provide reasonable assurance that the following categories of objectives will be achieved:

- Operations – effectiveness and efficiency of operations;
- Reporting – financial reporting will be reliable ; and
- Compliance – compliance with applicable laws, regulations, contracts and grant agreements.

5 Components of Internal Control

1. Control Environment – the foundation of an internal control system.
2. Risk Assessment - assesses the risks facing the organization as it seeks to achieve its objectives
3. Control activities – the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system
4. Information and communication – the quality information management and personnel communicate and use to support the internal control system
5. Monitoring – activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews

Control Environment

- Management and the oversight body should demonstrate a commitment to integrity and ethical values.
- The oversight body should oversee the internal control system.
- Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Management should commit to recruit, develop, and retain top-notch employees.
- Management should evaluate performance and hold employees accountable for internal control responsibilities.

Risk Assessment

- Management should define objectives to identify risks and tolerances.
- Management should identify, analyze, and respond to risks associated with objectives.
- Management should consider risks related to fraud, improper payments, and information security when identifying, analyzing, and responding to risks.
- Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

- Management should design control activities to mitigate risks to achieving the entity's objectives to acceptable levels.
- Management should design general control activities over information technology to mitigate risks to achieving the entity's objectives to acceptable levels.
- Management should implement control activities through policies and procedures.

Information and Communication

- Management should obtain or generate relevant, quality information and use it to support the functioning of the internal control system.
- Management should internally communicate relevant and quality information, including objectives and responsibilities for internal control, necessary to support the functioning of the internal control system.
- Management should communicate relevant and quality information with appropriate external parties regarding matters impacting the functioning of the internal control system.

Monitoring

- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Management should evaluate and remediate identified internal control deficiencies on a timely basis.



Your Survival Gear: Essential Tools



Compass — Policies & Procedures



- Establish direction and consistency
- Define approval authority
- Guide daily financial operations
- Ensure compliance with statutes & policy

Your Survival Gear: Essential Tools



Map — Risk Assessment



- Identify risks before they cause problems
- Evaluate operational & compliance vulnerabilities
- Adjust processes when risks change
- Focus resources on the highest-risk areas

Your Survival Gear: Essential Tools



First-Aid Kit — Preventive Controls



- Prevent issues before they occur
- Most cost-effective control type
- Reduce fraud, errors, and misuse
- Strengthen accountability

Your Survival Gear: Essential Tools



Flashlight — Detective Controls



- Reveal issues after they happen
- Help detect errors or irregularities
- Allow timely correction
- Support oversight and audit readiness

Your Survival Gear: Essential Tools



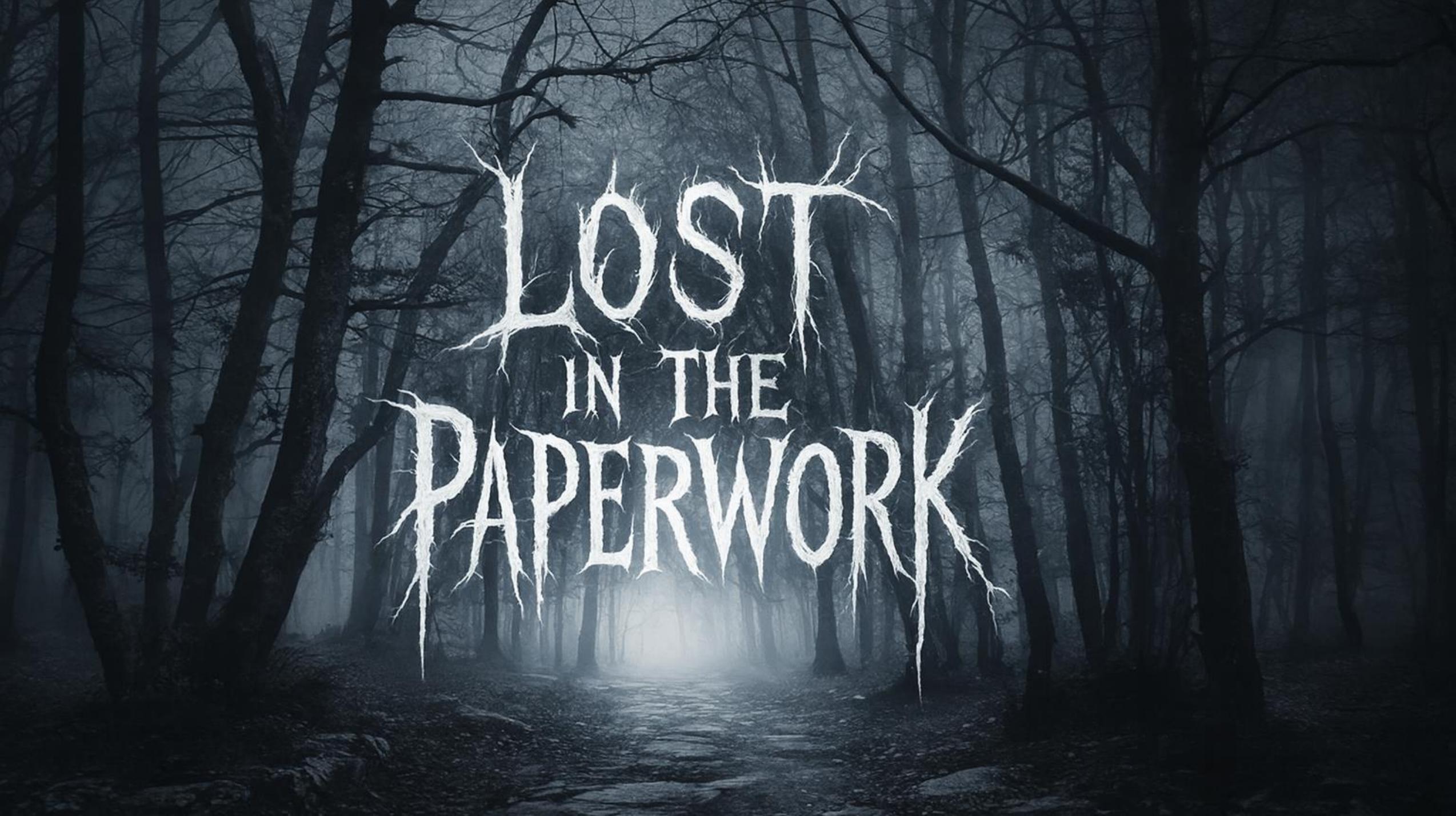
Whistle — Communication & Reporting



- Encourage early reporting
- Support transparency & accountability
- Keep boards informed
- Ensure compliance with oversight agencies

Your Survival Gear: Essential Tools



A dark, atmospheric forest scene with a path leading into the distance. The trees are bare and the ground is covered in fallen leaves. The title "LOST IN THE PAPERWORK" is written in a white, root-like font, appearing to be carved into the trees. The overall mood is mysterious and unsettling.

LOST
IN THE
PAPERWORK

Lost in the Paperwork — The Problem



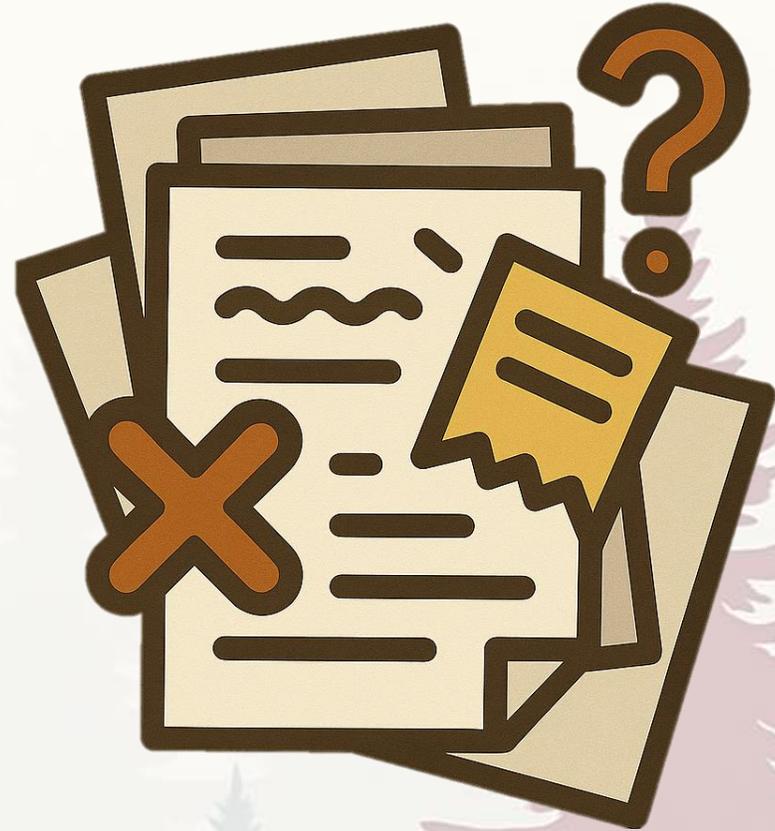
- Missing receipts or incomplete backup
- Unsigned or unapproved invoices
- Unclear or inconsistent coding
- “Can you just process it?” pressure

Why It Matters (The Risk)



- Violates internal control standards
- Leads to audit findings
- Allows errors or misuse to go undetected
- Breaks the chain of accountability

How We Fix It (The Tools)



How We Fix It (The Tools)



Compass: Enforce written documentation policies



Flashlight: Reconciliations catch missing items early



Whistle: Communicate expectations upfront

FRAUD
IN THE
FOREST



Poisonous Berries – Identifying the Risk



- Vendor invoices that “don’t look right”
- Duplicate reimbursement attempts
- Charges that don’t match documentation
- Transactions processed without verification

Why These “Berries” Are So Dangerous



- Can mask errors, misuse, or fraud
- Lead to findings & repayment of funds
- Undermine grant compliance
- Erode public trust in the District

Avoid the Poison (The Tools)



Prevent Fraud & Improper Payments



Compass: Clear purchasing & reimbursement policies



First-Aid Kit: Preventive controls (vendor approval, POs, invoice numbering)



Flashlight: Detective Controls (Data matching, reasonableness checks, reconciliations)

A dark, atmospheric illustration of a stormy night. The scene is dominated by dark, silhouetted trees and a heavy, dark sky. A bright, jagged lightning bolt strikes down from the top center, illuminating the scene. Rain is depicted as numerous thin, vertical lines falling across the entire frame. In the lower right foreground, a hooded figure is shown from the back, looking towards the storm. The overall mood is mysterious and ominous.

UNEXPECTED STORM

Unexpected Storm — When Change Hits



- New grant or funding requirements
- Emergency or unexpected expenditures
- New billing or accounting system
- Organizational or staffing changes

Why Change Is Dangerous If Ignored



- Control gaps appear during transitions
- Staff roles and responsibilities shift
- Old policies no longer apply
- Higher risk of errors, fraud, or missed deadlines

Navigating the Storm (The Tools)



Tools for Navigating the Storm



Map: Identify risks created by the change



Compass: Update policies & procedures



First-Aid Kit: Add preventive controls quickly



Flashlight: Increase monitoring during transition



Day-to-Day SURVIVAL TIPS

What To Do Every Day

1. Document Everything

- Maintain clear records to support every transaction
- Ensure documentation is complete, timely, and retained properly

What To Do Every Day

2. Reconcile Routinely

- Perform monthly reconciliations of accounts and records
- Compare activity to supporting documents and approvals

What To Do Every Day

3. Ask Questions Early

- Clarify missing info before processing transactions
- Confirm purpose, coding, and authorization

What To Do Every Day

4. Separate Duties Whenever Possible

- Divide responsibilities for authorization, custody, and recording
- Use compensating reviews in small districts

What To Do Every Day

5. Communicate Issues Immediately

- Divide responsibilities for authorization, custody, and recording
- Use compensating reviews in small districts

Building Camp: Culture of Compliance



- Everyone Has a Role in Internal Control
- Administrative Staff See Risks First
- Slow Down to Do It Right
- Documentation & Questions Build Compliance

Compliance Trek Survival Checklist



- Follow written policies (Compass) 
- Perform mini risk assessments as you work (Map) 
- Use preventive controls first (First-Aid Kit) 
- Perform detective reviews (Flashlight) 
- Speak up (Whistle) 

Contact Information

Justin Garcia

Contract Audit Review Specialist
Division of Local Government Audit

615-401-7810

Justin.Garcia@cot.tn.gov

Matt Piland, CMFO

Contract Audit Review Specialist
Division of Local Government Audit

615-401-7889

Matt.Piland@cot.tn.gov