

Tennessee Legislative Efforts Improving Local Government Internal Controls

By Ashley Nipper and Tammy Waymire, Ph.D., CPA

Almost since Single Audits were legislated in 1984, the quality of these audits has been of concern. Numerous studies examining government audit quality have found troubling results. The [Report on National Single Audit Sampling Project](#) in 2007 found more than 50 percent of Single Audits — conducted predominately by CPA firms— were either unacceptable or of limited reliability.

Because Single Audits impact how federal awards are managed, concerns with audit quality compromise the value of the audit results. If an audit fails to identify and report deficiencies that are present, granting agencies relying upon the audit may reach inappropriate conclusions related to the grant.

Tennessee is one of only 14 states to utilize both a centralized audit agency and individual CPA firms to conduct Single Audits of local governments. [In our recent study](#), we compared the results conducted by the two types of auditors. Three factors were observed regarding internal control deficiencies:

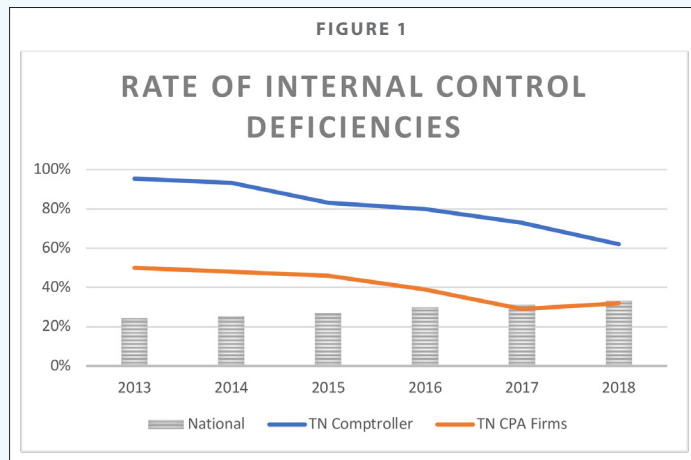
1. Tennessee compares favorably to the rest of the nation.
2. Audits conducted by the Tennessee Comptroller's Office appear to be consistently more rigorous than those conducted by CPA firms.
3. Legislation requiring internal controls has had a favorable impact on internal controls within Tennessee.

Collectively, the Tennessee case study results provide support for consideration of centralization of the audit function and for legislation to improve internal controls of local governments.

One factor present during our case study is the issuance of Uniform Guidance, which placed increased requirements for internal controls and the testing of such controls in the audit. For the period following the implementation of Uniform Guidance, we find a 3 percent increase in findings nationally, suggesting a failure to make adequate improvements to internal controls.

Despite an increase in internal control deficiency findings nationally, Tennessee experienced a decline in findings. This decline is largely attributable to the implementation of TCA §9-18-102, which mandates internal controls.

Additionally, Tennessee employed agencies such as Municipal Technical Advisory Service (MTAS) and County Technical Assistance Service (CTAS) to provide support for cities' and counties' efforts



Source: "Government Audit Quality and Efforts to Improve Internal Controls: A Case Study in Tennessee", PERI Working Paper (2020)

in complying with the legislation. Despite converging results, as of 2018, the Comptroller's Office still reports 29 percent more audit findings than the national average. Figure 1 also depicts a clear discrepancy in the quality of audit in those conducted by the Tennessee Comptroller's Office as compared to those conducted by CPA firms within the state. For the six years under review, the Comptroller's Office consistently conducted a more rigorous audit, evidenced by an average of 40 percent more audit findings.

The state of Tennessee is doing many things right in its local government audit. The expertise of the Comptroller's Office translates into a greater number of findings. Although CPA firms within the state have not demonstrated the same level of rigor as that of the Comptroller's Office, their increased number of findings over the national average indicates successful oversight by the state.

In addition, legislation accompanied by capable support is associated with an overall decrease in internal control deficiencies that suggest improvement in the overall control system of city and county governments. This improvement provides encouragement for other states, which may be considering the implementation of similar legislation. Nationally we need to improve the quality of our audits. Replicating Tennessee's successful prototype might just be the key in doing so.

Permission to reprint this in whole or in part is hereby granted, provided that the author (or authors) and the Political Economy Research Institute are properly cited.

ABOUT THE AUTHORS



ASHLEY NIPPER is a graduate student in the Master of Accounting program at MTSU and the 2020 PERI Graduate Summer Research Fellow.



TAMMY WAYMIRE, Ph.D., CPA, is an Associate Professor of Accounting in the Jones College of Business at MTSU.



Political Economy
Research Institute
mtsu.edu/per