TENNESSEE COMPTROLLER OF THE TREASURY

DIVISION OF STATE AUDIT

STATE OF TENNESSEE

Single Audit Report

For the Year Ended June 30, 2015

Justin P. Wilson, Comptroller

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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March 23, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly

Ladies and Gentlemen:

We are pleased to submit the thirty-second *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2015. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This *Single Audit Report* reflects federal expenditures of over $13.9 billion. We noted instances of noncompliance that resulted in an adverse opinion on compliance for one program, and qualified opinions on compliance for an additional five of the state's thirty-one major federal programs. In addition, we noted other instances of noncompliance that meet the reporting criteria contained in OMB Circular A-133. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to federal programs. The instances of noncompliance, material weaknesses, and significant deficiencies related to federal programs are described in Section III of the Schedule of Findings and Questioned Costs.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2015, has been issued under a separate cover. In accordance with the standards applicable to financial audits contained in generally accepted government auditing standards, we are issuing our report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. We noted one internal control deficiency that we considered to be a material weakness in internal control over financial reporting. We noted no instances of noncompliance that we considered to be material to the state's basic financial statements. The material weakness in internal control over financial reporting is described in Section II of the Schedule of Findings and Questioned Costs.

We would like to express our appreciation to the Department of Finance and Administration and other state agencies, universities, and community colleges, for their assistance and cooperation in the single audit process.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

State of Tennessee
Single Audit Report
For the Year Ended June 30, 2015

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Single Audit Report
For the Year Ended June 30, 2015

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Selected Statistical Data

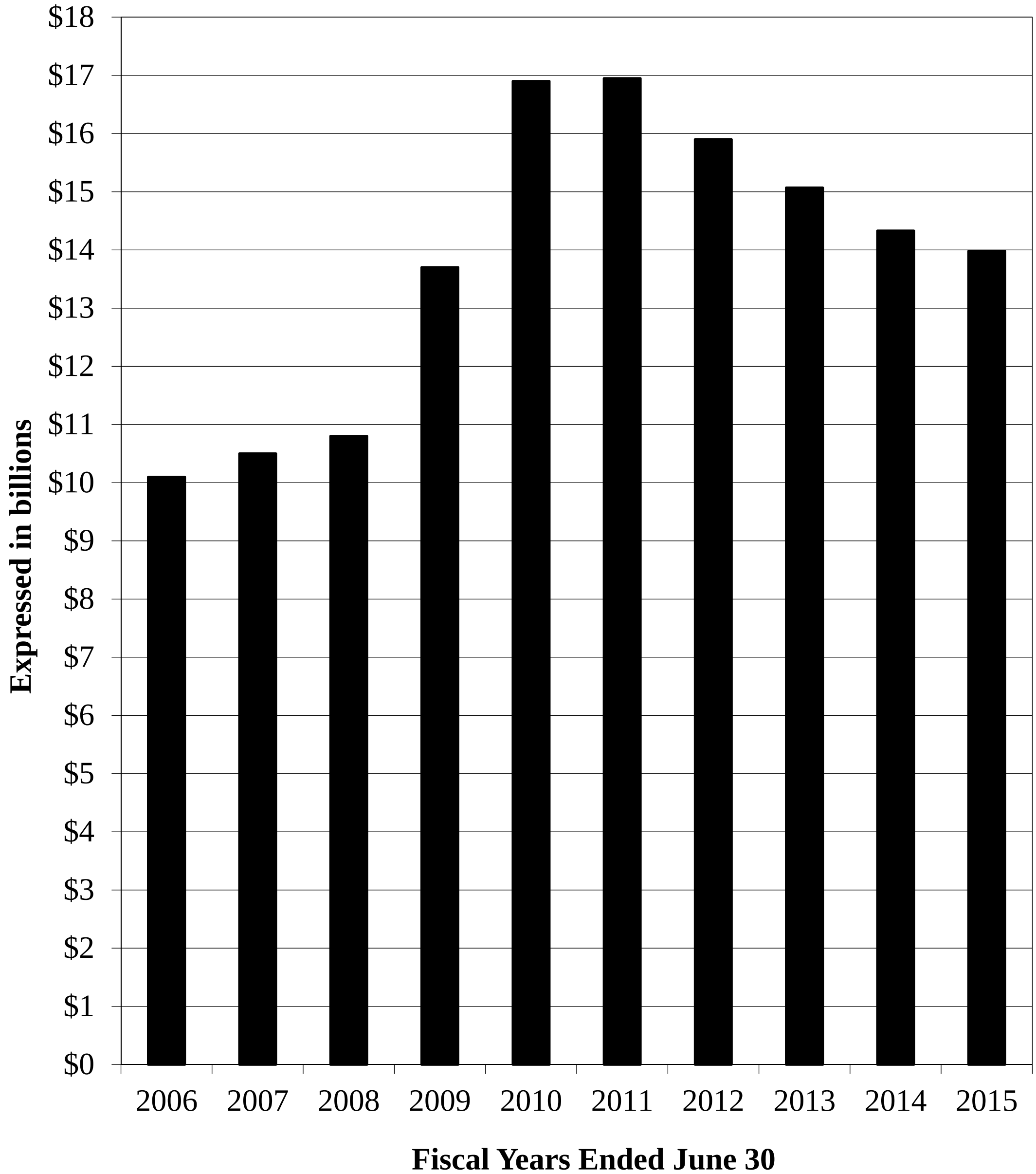
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

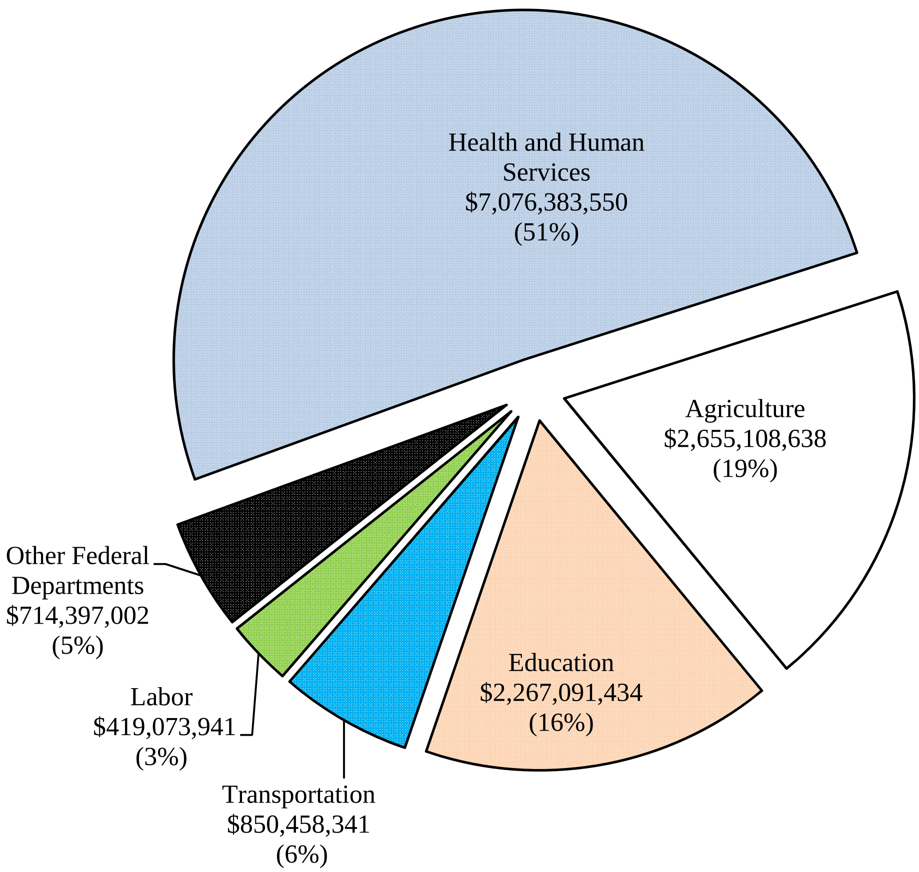
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

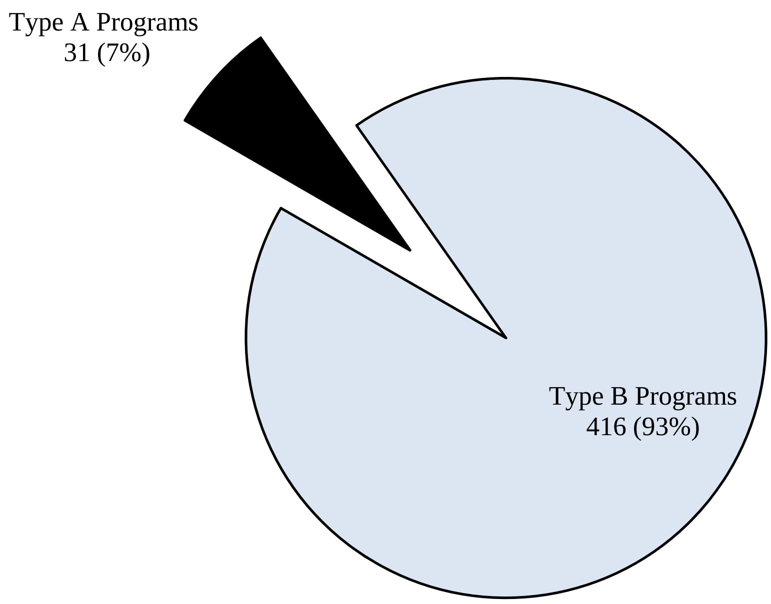
Total Federal Expenditures - Ten-Year Summary



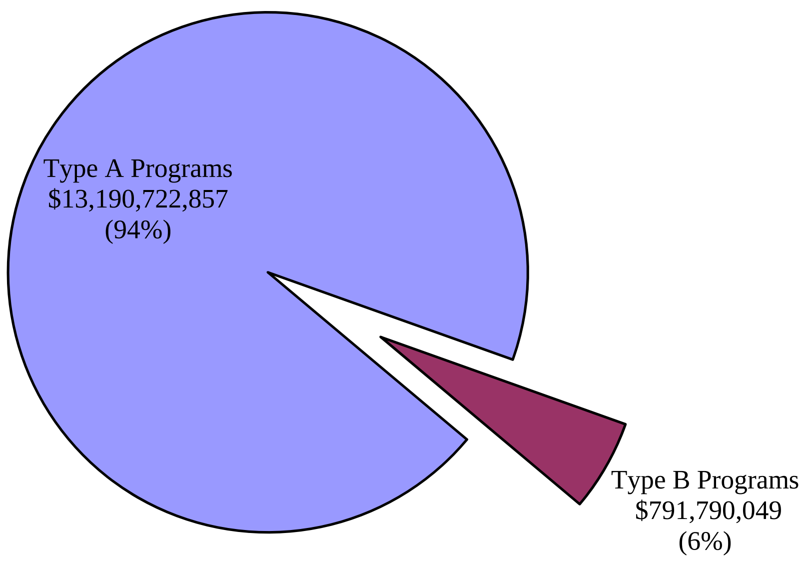
Expenditures by Awarding Agency
July 1, 2014, through June 30, 2015



Number of Type A and Type B Programs



Type A and Type B Program Expenditures



Type A programs for the State of Tennessee are defined as federal programs with expenditures exceeding the larger of $30 million or fifteen-hundredths of one percent (.0015) of total federal awards expended. For the fiscal year ended June 30, 2015, the Type A program threshold for the State of Tennessee was $30,000,000. Those federal programs with expenditures below the Type A threshold are labeled Type B programs.

Auditor’s Reports

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor’s Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

STATE OF TENNESSEE
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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Bill Haslam, Governor
Members of the General Assembly

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of Tennessee's basic financial statements, and have issued our report thereon dated December 29, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the schedule of findings and questioned costs as item 2015-001, that we consider to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Tennessee's Response to the Finding

The State of Tennessee's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The State of Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 29, 2015

STATE OF TENNESSEE
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Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

The Honorable Bill Haslam, Governor
Members of the General Assembly

Report on Compliance for Each Major Federal Program

We have audited the State of Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Tennessee's major federal programs for the year ended June 30, 2015. The State of Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Tennessee's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State of Tennessee's compliance.

Basis for Adverse Opinion on CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States

As described in the accompanying schedule of findings and questioned costs, the State of Tennessee did not comply with requirements regarding CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States as described in finding numbers 2015-041 for Period of Performance, and 2015-043 for Reporting. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with the requirements applicable to that program.

Adverse Opinion on CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the State of Tennessee did not comply in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States for the year ended June 30, 2015.

Basis for Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 84.002 Adult Education-Basic Grants to States, CFDA 84.287 Twenty-First Century Community Learning Centers, CFDA 93.563 Child Support Enforcement, and the Child Care and Development Fund Cluster

As described in the accompanying schedule of findings and questioned costs, the State of Tennessee did not comply with requirements regarding the following:

Finding #	**CFDA #**	**Program or Cluster Name**	**Compliance Requirement(s)**
2015-021	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2015-025	10.558	Child and Adult Care Food Program	Eligibility
2015-059	84.002	Adult Education-Basic Grants to States	Procurement and Suspension and Debarment; Subrecipient Monitoring
2015-060	84.002	Adult Education-Basic Grants to States	Allowable Costs/Cost Principles; Matching, Level of Effort, Earmarking; Subrecipient Monitoring
2015-061	84.002	Adult Education-Basic Grants to States	Allowable Costs/Cost Principles; Equipment and Real Property Management; Procurement and Suspension and Debarment; Subrecipient

			Monitoring
2015-007	84.287	Twenty-First Century Community Learning Centers	Period of Performance
2015-008	84.287	Twenty-First Century Community Learning Centers	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
2015-016	93.563	Child Support Enforcement	Allowable Costs/Cost Principles
2015-047	-	Child Care and Development Fund Cluster	Matching, Level of Effort, Earmarking; Period of Performance; Reporting

Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with the requirements applicable to those programs.

Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 84.002 Adult Education-Basic Grants to States, CFDA 84.287 Twenty-First Century Community Learning Centers, CFDA 93.563 Child Support Enforcement, and the Child Care and Development Fund Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion in the preceding paragraph, the State of Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the preceding paragraph for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-003, 2015-004, 2015-006, 2015-008 through 2015-024, 2015-026 through 2015-040, 2015-042, 2015-044, 2015-046, 2015-048, 2015-050, 2015-051, 2015-053 through 2015-057, 2015-060, 2015-062, and 2015-064 through 2015-072. Our opinion on each major federal program is not modified with respect to these matters.

The State of Tennessee's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Tennessee's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State of Tennessee is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Tennessee's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Tennessee's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-008, 2015-011, 2015-016, 2015-017, 2015-021, 2015-023, 2015-025, 2015-027, 2015-038, 2015-041 through 2015-043, 2015-047, 2015-048, 2015-051, and 2015-059 through 2015-061 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-002 through 2015-009, 2015-011, 2015-012, 2015-014, 2015-016 through 2015-022, 2015-024, 2015-026, 2015-028 through 2015-034, 2015-036, 2015-037, 2015-039, 2015-040, 2015-044 through 2015-046, 2015-049, 2015-052 through 2015-058, 2015-062, 2015-063, 2015-065 through 2015-068, 2015-070, and 2015-072 to be significant deficiencies.

The State of Tennessee's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Tennessee's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State of Tennessee's basic financial statements. We issued our report thereon dated December 29, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
March 23, 2016

Auditor’s Findings

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor’s Results

Section II – Financial Statement Findings

Section III – Federal Award Findings and Questioned Costs

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I – Summary of Auditor's Results

Financial Statements

- We issued unmodified opinions on the basic financial statements.
- We identified one material weakness in internal control over financial reporting.
- We reported no significant deficiencies in internal control over financial reporting.
- We noted no instances of noncompliance considered to be material to the basic financial statements.

Federal Awards

- We identified material weaknesses in internal control over major programs.
- We identified significant deficiencies in internal control over major programs.
- We issued an adverse opinion for CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States. We issued qualified opinions for CFDA 10.558 Child and Adult Care Food Program, CFDA 84.002 Adult Education-Basic Grants to States, CFDA 84.287 Twenty-First Century Community Learning Centers, CFDA 93.563 Child Support Enforcement, and the Child Care and Development Fund (CCDF) Cluster. We issued unmodified opinions for each of the other major federal programs.
- We disclosed audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in OMB Circular A-133, Section 520(b), was $30,000,000.
- The State of Tennessee does not qualify as a low-risk auditee under OMB Circular A-133, Section 530.

Section I – Summary of Auditor's Results (continued)

CFDA Number	Name of Major Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
17.225	Unemployment Insurance*
20.509	Formula Grants for Rural Areas
84.002	Adult Education - Basic Grants to States
84.010	Title I Grants to Local Educational Agencies
84.032	Federal Family Education Loans - Guaranty Agencies
84.048	Career and Technical Education - Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants*
93.563	Child Support Enforcement
93.658	Foster Care - Title IV-E*
93.659	Adoption Assistance*
93.667	Social Services Block Grant
93.917	HIV Care Formula Grants
-	Research and Development Cluster*
-	Student Financial Assistance Cluster
-	Supplemental Nutrition Assistance Program (SNAP) Cluster
-	Child Nutrition Cluster
-	Section 8 Project - Based Cluster
-	Employment Service Cluster
-	Workforce Investment Act Cluster
-	Highway Planning and Construction Cluster*
-	Special Education Cluster (IDEA)
-	Temporary Assistance for Needy Families (TANF) Cluster
-	Child Care and Development Fund (CCDF) Cluster
-	Medicaid Cluster*
-	Disability Insurance/Supplemental Security Income (SSI) Cluster

*Program includes ARRA funding.

Section II – Financial Statement Findings

Finding Number	2015-001
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Revenue Department of Finance and Administration
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Material Weakness
Compliance Requirement	N/A
Questioned Costs	N/A
Repeat Finding	N/A

Tax accruals related to franchise and excise taxes were incorrect in the accounting ledger

Condition

We compared the accrual entries for estimated tax collections at June 30, 2015, with those at June 30, 2014. This comparison indicated a significant decrease in estimated collections. This decrease was caused by a large amount of estimated franchise and excise tax refunds. We requested the underlying detailed trend analysis worksheet that was used by the Department of Revenue to support the amounts in the schedules that it had provided to the Department of Finance and Administration as a basis for the accounting entry. The original underlying detailed trend analysis worksheet could not be provided. However, the Department of Revenue did provide a worksheet which indicated a much lower refunding estimate and subsequently sent the Department of Finance and Administration a revised schedule to correct the previous estimate.

Based on the worksheet provided by the Department of Revenue, estimated refunds were overstated by $70,549,007. This caused overall tax accruals recorded in the general fund ledger to be understated, which would result in an understatement of both taxes receivable and deferred inflows of resources. Management made a correcting entry in the accounting system once we made them aware of the issue.

Criteria

Management of the Department of Finance and Administration is responsible for ensuring adequate internal controls are in place to prevent, or detect and correct, material misstatements in the financial statements.

Cause

According to Department of Revenue personnel, the error was caused by formula errors in the updated historical spreadsheets, which feed into the estimate worksheet that is sent to Finance and Administration. Because of the unusually large variance from the prior year, the Funds Coordinator at Finance and Administration should have questioned the amount further before posting it to the general ledger.

Effect

Incorrect amounts in the accounting ledger result in misstatements in the *Comprehensive Annual Financial Report*.

Recommendation

The Department of Revenue should ensure that the amounts in the worksheets sent to the Department of Finance and Administration contain accurate data so that errors in the accounting ledger, and ultimately the financial statements, may be avoided. Staff at the Department of Finance and Administration, Division of Accounts, should thoroughly review material variances before posting to the general ledger.

Management's Comments

Department of Revenue

We concur. Accruals were sent to the Department of Finance and Administration, Division of Accounts, on September 11, 2015, the year-end deadline, for further review and posting to the general ledger. The Department of Revenue was operating under a compressed timeline of two days to complete the extensive accrual process and review as our final month closing for the year was not complete until September 9, 2015. We agree there were three errors that, when combined, contributed to the incorrect posting to the general ledger.

Our initial review revealed a data error on the trend analysis under the "F&E 1st year omitted" tab, where first-year amounts were included on the spreadsheet for the years collected 2013, 2014, and 2015. This error was corrected on the trend analysis prior to sending our spreadsheets to the Division of Accounts. However, due to an updating error discussed later, this correction was not reflected in the initial posting to the general ledger.

In addition, our review did not catch a mistake in the formula used on the "F&E recap" tab, where the incorrect tab "1st year omitted" instead of "1st year only" was used for the trend analysis spreadsheet "Accruals Full-all taxes new method15." This error by itself reflected total refunds in excess of $1 billion. The net effect of this oversight, and the preceding error corrected, but not updated, created the overstatement of $70,549,007.

In an effort to minimize the repetitive keying and to improve the ability to follow the process from year to year, formulas were used to link the spreadsheets together. This is commonly used in financial control to enhance manual processes. We had linked our trend analysis spreadsheet

“Accruals Full-all taxes new method15” to the following two spreadsheets: “Accrual Analysis15” and “Full 2015 Accrual Schedule F&A.” All three spreadsheets were sent to the Division of Accounts. The inquiry from the Division of Accounts gave us no indication that the spreadsheets sent, and used to book the entries into the general ledger, did not match those on the source document “Accruals Full-all taxes new method15.”

Our first indication that something was wrong with the links came when State Audit inquired as to why the figures posted in the ledger did not match the source documents provided. This led to the discovery of, and communication to, the Division of Accounts, that the spreadsheets did not automatically update upon opening. This was the third and final mistake leading to the posting error. Our office worked diligently with the Division of Accounts to correct the formula error and remove the links so that the ledger entry could be corrected.

The Department of Revenue will collaborate with the Division of Accounts to develop procedures enhancing internal control going forward. We will also request extended due dates for accruals when the time table for closing and reporting does not provide an adequate time frame for a more extensive review and follow-up.

Department of Finance and Administration

We concur. The objectives of internal control are to provide us with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed with accuracy and in accordance with our authorization and recorded properly to permit the fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. A part of our internal control involves analytical review of financial statement line items and account balances before the complete compilation of the *Comprehensive Annual Financial Report* (CAFR). Procedures included as part of this analytical review include comparing final revenue collection amounts by revenue type to budgeted revenue estimates. Because the error had no impact on revenues recognized at the fund level (i.e., on a budgetary basis), it did not contribute to a significant variance between revenue collections and revenue estimates and could not have been detected by such review.

In addition, established analytical processes include reviewing significant variances in financial statement line items by comparing prior-year amounts to current-year amounts in the aggregate once all transactions have been posted to the general ledger in order to encompass all transactions that have occurred as an overall review before issuing the final CAFR. Because no general standards prescribe thresholds or procedures for determining materiality, the department has designed this review to compare amounts at the financial statement line item level instead of individual transactional level to ensure a holistic approach that encompasses materiality amounts at the reporting unit level. The subject error was discovered before this review was completed. To enhance and improve these procedures, as well as to assist in a more timely discovery of potential problems, the department will expand the annual comparison to include a transactional level review for those specific accounting entries recorded by Department of Finance and Administration staff that could cause a misrepresentation as a whole. As mentioned in the finding cause paragraph, the Department of Finance and Administration did receive the underlying support for recording the transaction from Department of Revenue and did make an inquiry to the Department of Revenue regarding the significant difference from the prior year before posting the transactions to the general ledger; however, the explanation received was not further substantiated. In the future, further evidence will be obtained to support significant variance explanations.

In conjunction with the expanded analytical reviews, the Department of Finance and Administration will work in collaboration with the Department of Revenue to research alternative solutions and business processes that could improve the estimation of the refunds recorded outside the revenue availability period to reduce the risk of future errors that might otherwise go undiscovered with existing internal control procedures.

Section III – Federal Award Findings and Questioned Costs

Finding Number	2015-002
CFDA Number	14.228
Program Name	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Grant/Contract No.	Various
Federal Award Year	2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	N/A

The department did not provide adequate internal controls in two specific areas

The Department of Economic and Community Development did not design and monitor internal controls in two specific areas. One area involves internal control deficiencies within all of the department's systems, while the other area involves two of the department's systems. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in the two areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff the responsibility for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The two areas within the examined process, for which the details are confidential under TCA 10-7-504(i) and TCA 10-7-508(a), have been addressed and changes in our procedures have been implemented to provide effective internal controls.

Finding Number	2015-003
CFDA Number	14.228
Program Name	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Grant/Contract No.	B02DC4700001, B03DC4700001, B07DC4700001, B08DC4700001, B-09-DC-47-0001, B-10-DC-47-0001, B-11-DC-47-0001, B-12-DY-47-0001, B-13-DC-47-0001, B-14-DY-47-0001, B-08-DI-47-0001
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	2014-007

For the second consecutive_year, the department did not monitor subrecipients for federal audit requirements

Background

The primary mission of the Department of Economic and Community Development, as a pass-through entity, is to provide federal funding from the U.S. Department of Housing and Urban Development to communities across the state to promote economic and community development. These cities and counties, also known as subrecipients, use the Community Development Block Grant (CDBG) funds for projects that align with one of the three national objectives to

- principally benefit low and moderate income people;
- eliminate or prevent slums and blight; or
- address imminent health and safety problems.

As the pass-through entity, the department is responsible for overseeing and monitoring the subrecipients' compliance with federal regulations. In accordance with federal requirements, the department is required to ensure its subrecipients obtain the required audits and take appropriate action based on the results of those subrecipient audits. Management is specifically required to follow up on any audit findings, which includes issuing management decisions within six months of the audit report and requiring corrective action based on the findings.

Management concurred with our fiscal year 2014 finding that identified deficiencies in the department's subrecipient monitoring processes.

Condition

For fiscal year 2015, we determined that the department provided CDBG grant funds to a population of 228 subrecipients. We tested a sample of 25 subrecipients to determine if management and staff followed federal regulations related to audit requirements.

As noted in the prior audit, the Director of Community Programs did not properly review subrecipient audit reports to ensure that staff performed the required finding follow-up procedures. Specifically, we found that

- independent auditors reported findings for two of the subrecipients in our sample (8%), yet management and staff failed to ensure the subrecipients took appropriate and timely corrective action; and that
- management still had not issued management decisions on audit findings for these two subrecipients (as of November 9, 2015, management's delay in issuing the decisions ranged from 57 to 238 days past the 6-month follow-up requirement date).

Criteria

According to Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," Section 400(d),

> Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: . . .
>
> (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Cause

Based on a discussion with the Director of Community Programs and the Director of Internal Audit, even though we reported this condition in the prior audit, the department did not implement procedures to ensure that staff reviewed audit reports for all applicable findings until the fiscal year beginning July 1, 2015. We originally notified department management of this condition in September 2014.

Effect

Without proper controls and procedures in place to ensure compliance with federal requirements, management cannot effectively monitor and ensure that subrecipients have taken corrective action for audit findings or that subrecipients are in full compliance with federal and state regulations.

Recommendation

The Commissioner and top management should immediately ensure that staff follow the newly established control procedures and that they comply with the federal regulations governing subrecipient monitoring and the related subrecipient audit requirement functions.

Management's Comment

We concur. The Department of Economic and Community Development (ECD) agrees that we did not have all components of our process of monitoring subrecipients for federal audit requirements completely in place during the audit period. As the audit mentioned, ECD has a significant number of subrecipients to monitor each fiscal year. The task of planning a course of action, developing an effective process, training staff for the task, and putting the process into operation takes time if it is done well. We had in fact begun a process for determining which subrecipients required Single Audits in accordance with federal and state requirements. We had developed a method for obtaining and reviewing said audits in a manner that we believe is efficient and effective and uses the staff currently available. In August 2014, we had already begun training our limited staff to perform reviews of subrecipients' audits and relate the findings' impact on their individual risk assessments. In recent months, we have developed a method to request, collect, and review the subrecipients' Corrective Action Plans that we expect will be both efficient and effective considering the volume of our subrecipients. We are completing development of a method to efficiently and effectively issue the Management Decision Letters in a timely manner.

Finding Number	2015-004
CFDA Number	14.228
Program Name	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Grant/Contract No.	B-10-DC-47-0001, B-11-DC-47-0001, B-12-DY-47-0001, B-13-DC-47-0001, B-14-DY-47-0001
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Economic and Community Development, in coordination with the Department of Finance and Administration, did not accurately report financial data in the 2014-2015 Performance and Evaluation Report

Background

The State of Tennessee participates in Consolidated Planning, which combines the planning, application, and reporting processes for the U.S. Department of Housing and Urban Development grant programs administered by different Tennessee state agencies, including the Department of Economic and Community Development. The department passes on federal funds received to various subrecipients.

As part of Consolidated Planning, the Department of Economic and Community Development, in coordination with the Department of Finance and Administration,[1] must complete the Performance and Evaluation Report for the Community Development Block Grant. This report includes a financial summary showing the sources, uses, expenditures, and program compliance characteristics for each open federal grant[2] and the subgrants the Department of Economic and Community Development makes to subrecipients. The department's resources under the Community Development Block Grant consist of grant funds, program income, and recaptured funds.[3] The financial summary encompasses grants that have been issued over multiple years.

The Department of Finance and Administration's Fiscal Director prepares the financial summary, while the Department of Economic and Community Development's Director of Community Programs reviews the summary for accuracy.

[1] Per executive order, the Department of Economic and Community Development has an agreement with the Department of Finance and Administration that Finance and Administration staff will manage and operate the Department of Economic and Community Development's financial accounting and reporting functions, including federal reporting.

[2] The annual Performance and Evaluation Report contains a separate report for each annual Community Development Block Grant the state has received until all funds from that grant are spent. Until all funds from the annual grant are spent, the grant is considered "open."

[3] Upon project completion, subrecipients return excess funds to the Department of Economic and Community Development as recaptured funds. The department then redistributes the recaptured funds for new grants.

Condition and Cause

We reviewed the 2014-2015 Performance and Evaluation Report, which covered the period July 1, 2014, through June 30, 2015, and financial information related to the 2010 through 2014 federal grants. Based on our review, we found that during report preparation, fiscal staff deviated from federal instructions as follows:

1. Out of 82 subgrants for the 2014 federal grant year, fiscal staff did not designate 10 as funded with program income (12%). See the table below for details.

Table 1
Undesignated Program Income Amounts

No.	Subrecipient	Program Income Amount
1	Celina	$ 25,000
2	Greenfield	25,000
3	Jefferson City	25,000
4	Martin	25,000
5	Mt. Pleasant	25,000
6	Portland	25,000
7	Ripley	25,000
8	Smithville	25,000
9	Sweetwater	25,000
10	Waynesboro	25,000
	Total:	**$250,000**

The Director of Community Programs attributed these errors to an oversight.

2. Out of 76 subgrants for the 2013 federal grant year, fiscal staff misreported 4 obligation amounts (5%). We present details in the following table.

Table 2
Misreported Obligation Amounts

No.	Subrecipient	Amount Reported	Correct Amount	Difference Over/(Under)
1	Covington	$379,500	$279,500	$100,000
2	Lauderdale County	32,000	32,200	(200)
3	Paris	328,500	368,500	(40,000)
4	Decatur County	225,234	227,709	(2,475)
	Totals:	**$965,234**	**$907,909**	**$57,325**

Based on discussion with the Director of Community Programs, these errors occurred due to clerical mistakes and insufficient oversight.

3. For the 2011 federal grant year, we found that fiscal staff misreported $850,000 in total obligations. Staff reported the total amount obligated to the subrecipients as $24,136,369; however, the individual amounts obligated to subrecipients actually totaled $24,986,369. Following our discussion with the Director of Community Programs, she discovered that a miscalculation had occurred.

In addition to noncompliance, the existence of reporting errors illuminates deficiencies in the Director of Community Programs' process for reviewing the Performance and Evaluation Report.

1. While the Director of Community Programs stated that she had performed a review of the 2014-2015 Performance and Evaluation Report, she could not provide evidence of this review.

2. Neither the Director of Community Programs nor fiscal staff had developed policies and procedures to ensure the accuracy of the report.

Criteria

When preparing the Performance and Evaluation Report, fiscal staff must follow guidance established in the U.S. Department of Housing and Urban Development's Community Planning and Development Notice 11-03, "Reporting Requirements for the State Performance and Evaluation Report."

Regarding internal controls, Section OV2.14 of the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) states, "Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system."

Effect

Failure to comply with report instructions heightens the risk that both the federal and state government will make decisions based on inaccurate information.

Recommendation

The Department of Finance and Administration should ensure that fiscal staff have the proper training to prepare the Performance and Evaluation Report. We also recommend that fiscal staff properly report amounts in accordance with federal instructions. The Director of Community Programs should document her review of the Performance and Evaluation Report.

Furthermore, as business partners, it is the responsibility of both the Department of Finance and Administration and the Department of Economic and Community Development to ensure a mutual exchange of accounting, financial, and program information that will result in proper federal financial reporting. The two departments should work together to develop policies and procedures to ensure the accuracy of the Performance and Evaluation Report.

<u>Management's Comment</u>

Department of Economic and Community Development

We concur. To improve the department's oversight and the accuracy of the Performance and Evaluation Report (PER), the Departments of Economic and Community Development (ECD) and Finance and Administration (F&A) have agreed to the implementation of a new procedural checklist for the preparation and review of the PER. Implementation will begin with preparation of the report's next annual submission expected in August 2016. ECD and F&A work together to continuously improve our procedures for providing complete and accurate financial information in all of our federal and state reports.

Department of Finance and Administration

We concur. The Department of Finance and Administration (F&A) has conducted a review to determine the cause of the reported deficiencies. A new checklist for the preparation and review of the Performance and Evaluation Report has been developed and agreed to by both F&A and the Department of Economic and Community Development (ECD). This checklist will be implemented with preparation of the report's next submission expected in August 2016. We will continue to work with ECD to improve existing policies and procedures as well as the exchange of financial information. The importance of continued training on the preparation of this report, as well as all federal reporting, will continue as an F&A priority.

Finding Number	2015-005
CFDA Number	84.010, 84.027, 84.048, 84.173, 84.287, 84.367, and 84.395
Program Name	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Career and Technical Education – Basic Grants To States Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S010A110042, S010A120042, S010A130042, S010A140042, H027A070052, H027A090052, H027A110052, H027A120052, H027A130167, H027A140052, V048A110042, V048A120042, V048A130042, V048A140042, H173A110095, H173A120095, H173A130095, H173A140095, S287C110043, S287C120043, S287C130043, S287C140043, S367A120040, S367A130040, S367A140040, S395A100032
Federal Award Year	2006-2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2014-010

The Department of Education did not provide adequate internal controls in seven specific areas

The Department of Education did not design and monitor internal system controls in seven specific areas. For these seven areas, we found internal control deficiencies related to three of the department's systems. For two of the seven areas, we are reporting internal control deficiencies that were repeated from the prior audits because corrective action was not sufficient, as discussed below:

- For one area with repeated deficiencies, the conditions related to two systems. The department claimed to have implemented corrective action on January 30, 2015, for one system, but we found that issues in this system still occurred after this date. Management is continuing to evaluate possible actions to correct the issues relating to the second system and has yet to implement any corrective action.
- For the second area involving repeated internal control deficiencies, the multiple deficiencies also related to two systems, with one of the deficiencies identified in the past four audits. The department began implementation of corrective action on January 30, 2015, but we continued to find the same control deficiencies in both of these systems after the date of management's stated corrective action.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section

10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by promptly developing and consistently implementing internal controls in all seven areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. In recent months, the department has added staff and resources to its information technology (IT) function. Internal controls are being strengthened in the areas identified in the audit.

Finding Number	2015-006
CFDA Number	84.048, 84.287, and 84.367
Program Name	Career and Technical Education – Basic Grants To States Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	V048A110042, V048A120042, V048A130042, V048A140042, S287C110043, S287C120043, S287C130043, S287C140043, S367A120040, S367A130040, S367A140040
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$11,485 (84.048) $25,546 (84.287) $28,128 (84.367)
Repeat Finding	2014-008

Payroll expenditures were incorrectly charged to three federal programs

Background

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when payroll expenditures are charged to federal awards. Specifically, employees who work solely on one federal award (single cost objective employees) must prepare, at least semi-annually, certifications that meet federal requirements. Employees who work on multiple federal awards or a combination of federal awards and state activities (multiple cost objective employees) must prepare, at least monthly, personnel activity reports (or equivalent documentation) as prescribed by federal requirements.

Personnel Activity Report Placement Form

When the department hires an employee or employees change positions, each grant-funded employee and the Assistant Commissioner over that employee's division complete the employee's Personnel Activity Report (PAR) Placement Form. This form defines the employee's grant-funded duties and the amount of time the employee will spend on each cost objective.[4] The chief financial officer or the financial consultant enters the PAR information into a Microsoft Access Database.

[4] In a letter to Chief State School Officers on Granting Administrative Flexibility for Better Measures of Success, in Enclosure C, "Support for Salaries and Wages of an Employee Working on a Single Cost Objective," the United States Department of Education defined a cost objective as "a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred."

Personnel Activity Reports and Semi-Annual Attestations

The chief financial officer and the financial consultant use the information from the PAR Placement Form to create a PAR template for that employee. The template includes password-protected parameters that create errors if the employee charges too much time to a cost objective or records too much time for a single day. Employees record their hours worked each day on each cost objective in their personalized PAR and sign to certify that the PAR is a true recording of effort expended for the month. Employees are required to submit their PARs electronically to the department's shared drive by the 10th day of the next month. Fiscal staff use the PARs to make payroll expenditure adjustments to ensure that the employees' payroll is charged in accordance with their actual activities for the month.

Employees who receive 100% of their salary, wages, and benefits from a single federal source must submit a signed attestation semi-annually, documenting that they expended 100% of their time and effort on cost objectives supporting that federal program.

Payroll Expenditure Adjustments

Depending on how the department established an employee's position, payroll can either be charged entirely to federal grant awards, in part to federal awards, or entirely to state funds. Each quarter, the fiscal director utilizes an employee's PARs to create journal entries[5] in Edison to move payroll expenditures to the appropriate federal or state funding sources. For employees whose payroll is 100% federally funded and who are required to prepare semi-annual certifications, the fiscal director may also need to make journal entries to move payroll expenditures to the appropriate federal grant, depending on how the position was established.

Condition

As noted in two prior audits, when the department charged payroll expenditures to various federal awards, it did not adhere to federal requirements prescribed by OMB Circular A-87 and the United States Department of Education; furthermore, these issues continued after the date that the Tennessee Department of Education implemented corrective actions in response to the fiscal year 2014 finding.

During the audit, we performed testwork on two unique samples related to payroll. One sample (Sample A) consisted of employees whose time was charged to a consolidated administrative pool,[6] which includes the following programs:

- Title I, Part A;
- Improving Teacher Quality; and

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[5] A journal entry is a record of a financial transaction.
[6] The department consolidates administrative program funds originally authorized by the Elementary and Secondary Education Act of 1965 (ESEA) into a consolidated administrative pool. The department uses these consolidated administrative funds to administer various ESEA programs, including Title I, Part A; Improving Teacher Quality; and Twenty-First Century Community Learning Centers.

- Twenty-First Century Community Learning Centers.

Additionally, as part of our testwork to determine compliance with the allowable costs/cost principles requirements, we selected a second sample (Sample B) of payroll expenditures that were charged directly to the remaining federal programs under the scope of our audit: Race to the Top; Career and Technical Education (CTE); and Special Education.

Sample A

We tested a sample of 66 department employees whose payroll expenditures were fully or partially charged to the following federal programs in fiscal year 2015: Title I, Part A; Improving Teacher Quality; and Twenty-First Century Community Learning Centers. Of these 66 employees, 9 employees charged 100% of their time entirely to one federal program, and 57 employees charged portions of their time to one or more federal programs. For all 66 employees, we examined all payroll transactions and supporting documentation from July 1, 2014, through June 30, 2015. We found that for 6 of 66 employees tested (9%), the department incorrectly charged federal programs, based on our review of the employees' time and effort documentation.

- For one employee who worked on non-federal program activities, the department did not reclassify payroll expenditures that were improperly charged to the federal grants to non-federal funding sources. This employee's payroll expenditures should have been charged to state funding sources. Based on our review of the employee's PAR, the department overcharged the Improving Teacher Quality program $28,128, which is federal questioned costs.
- Five employees' payroll expenditures were improperly distributed among federal programs and state funding sources because the supporting documentation used to calculate the distribution contained a formula error. The department overcharged the Twenty-First Century Community Learning Centers program $25,546, resulting in federal questioned costs.

Sample B

We also tested 78 individual payroll expenditure transactions, totaling $50,184, from a population of payroll expenditures totaling $6,553,137, charged to the following federal programs:

Federal Program	**Payroll Population Amount**	**Sample Items Tested**	**Sample Amount Tested**
Race to the Top	$ 886,877	9	$ 6,455
CTE	1,559,278	60	42,349
Special Education	4,106,982	9	1,380
Total	**$ 6,553,137**		**$ 50,184**

Based on our review of the employees' time and effort documentation, we found that the department incorrectly charged the CTE grant.

- From our sample, we found that for 1 of 60 payroll expenditure transactions tested (1%), the department did not correctly charge a $363 payroll transaction in accordance with the cost objectives and activity outlined in the employee's PAR.

  We expanded our testwork for this employee and found an additional $1,537 of payroll expenditures incorrectly charged to the CTE grant resulting in federal questioned costs. During the quarter ended March 2015, the employee worked on two cost objectives funded by the CTE program: CTE Perkins Leadership and CTE Perkins Administration; however, due to a formula error in the supporting documentation, the fiscal director did not properly allocate the employee's quarterly payroll between the two objectives. Because administrative costs, such as payroll, cannot be charged to CTE Perkins Leadership, its cost objective was overcharged by $363 identified in the sample and $1,537 additional known questioned costs for a total of $1,900. For the sample error, questioned costs are likely to exceed $10,000.

- Based on our review of journal entries related to another payroll expenditure item, we also found that one employee's payroll expenditures, totaling $9,585, were improperly charged to the CTE program. During our audit period, the employee transferred to a 100% state-funded position within the department, thus, the $9,585 is federal questioned costs.

The total amount of all federal questioned costs noted is $65,159. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program. The total known questioned costs are summarized below:

Federal Program	**Questioned Costs**
Improving Teacher Quality (CFDA 84.367)	$28,128
Twenty-First Century Community Learning Centers (CFDA 84.287)	25,546
Career and Technical Education (CFDA 84.048)	11,485
Total Questioned Costs	**$65,159**

We reviewed management's annual risk assessment and determined that management addressed the risk that time and effort documentation will not be prepared to support salary or benefit costs. To mitigate the risk, management identified the payroll adjustment process as the control; however, without an independent review to ensure journal entries are accurate, this control was not sufficient to prevent the errors noted.

Criteria

OMB Circular A-87, Attachment A, "Part C: Basic Guidelines," dictates that to be deemed an allowable cost under a federal award, costs must "be necessary and reasonable for proper and efficient performance and administration of Federal awards."

OMB Circular A-87, Attachment B, paragraph 8.h.(3)-(5) states,

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. . . . Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. . . . They must account for the total activity for which each employee is compensated.

Additionally, Section 124(d) of Perkins IV (20 USC 2344[d]) states that funds for leadership activities may not be used for administrative costs; therefore, the administrative costs charged to the leadership cost objective are not allowable.

Cause

Fiscal staff used employees' PARs to record periodic (usually quarterly) journal entries to distribute employees' payroll costs to federal programs. To support the journal entries, fiscal staff created spreadsheets that averaged the actual activity percentages for the months and distributed employees' payroll based on the percentage of time they worked on each activity. For the five employees noted in Sample A and the employee noted in Sample B, the "Average" formula did not include all applicable months in the distribution percentages, resulting in incorrect charges to federal programs. The fiscal director stated that she did not detect these errors due to the volume of journal entries the department processes and because staffing shortages prevented her from ensuring there was a sufficient independent review of the journal entries and supporting documentation.

For the employee whose payroll was not supported and was charged to the Improving Teacher Quality program, the employee's position was originally solely funded by the federal program. The fiscal director stated that the position changed and became partially funded with state funds; however, there was a miscommunication between program staff and fiscal staff about how the position should be funded. As a result, the employee's payroll continued to be charged solely to the federal program, even though she was also working on state-funded activities.

For the one employee whose payroll expenditures were incorrectly charged to the CTE program, the problem occurred because the executive director over the program was unaware that the employee placement form must be filled out for all changes in employment, including transfers of current department employees.

Effect

When time and effort documentation is not used to properly charge payroll expenditures to the proper grant award, management increases the risk that federal programs will be incorrectly charged for payroll expenditures. Even within a federal program, failure to properly allocate payroll to cost objectives in accordance with actual activities can result in unallowable costs.

Due to the volume of journal entries that department staff are required to process, insufficient staffing increases the department's risk of errors in distributing payroll to federal programs.

Additionally, lack of communication between program staff and fiscal staff increases management's risk that payroll expenditures will not be correctly charged to the proper funding source.

Recommendation

The Commissioner should ensure that processes are in place to ensure program and fiscal staff accurately charge federal programs in accordance with federal requirements. The Commissioner should also ensure that the department has sufficient staff to carry out the department's process for distributing payroll based on employees' activities while reducing errors and omissions in the process.

Furthermore, the fiscal division should implement a review process for journal entries to ensure accuracy in the entry as well as the supporting documentation.

Additionally, it is vital that program staff and fiscal staff communicate to ensure that employees' PAR Placement Forms are properly updated when changes in activities or roles occur.

Finally, management should update the department's annual risk assessment to reflect any new controls the department adds to the time and effort documentation process to mitigate risks.

Management's Comment

We concur. The department has moved the expenditures cited as questioned cost in the finding to allowable funding sources. The department has recently hired an accounting manager which will provide greater capacity to ensure payroll expenditures are accurately charged to federal programs. The department will continue to review its processes and procedures to ensure payroll is allocated accurately to federal programs.

Finding Number	2015-007
CFDA Number	84.287
Program Name	Twenty-First Century Community Learning Centers
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S287C110043, S287C120043, S287C130043, S287C140043
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Period of Performance
Questioned Costs	$62,943
Repeat Finding	2014-012

Twenty-First Century Community Learning Centers program expenditures were obligated outside the period of performance

Background

The Twenty-First Century Community Learning Centers (21^{st} CCLC) program is a federal program to establish or expand community learning centers that provide students in kindergarten through high school with academic enrichment opportunities along with other activities designed to complement the students' regular academic program.

Like most federal programs, federal funding for the 21^{st} CCLC program is only available to the department and its subrecipients for a limited time. Each year, the Tennessee Department of Education (the department) receives a grant award notification from the U.S. Department of Education outlining the 21^{st} CCLC award amount and the period of performance (federal funding period). During fiscal year ended June 30, 2013, the department received a $21,261,368 grant, award number S287C120043, which had a period of performance of July 1, 2012, through September 30, 2013. The original period of performance was 15 months; however, as stated in the Tydings Amendment (Title 20, *United States Code*, Chapter 31, Section 1225[b]), funds unobligated by September 30, 2013, can be used for an additional 12 months. Based on the Tydings Amendment, the period of performance for this award was extended to cover the period July 1, 2012, through September 30, 2014, or 27 months.

Edison Projects

When a new grant is received, the department establishes the grant in Edison, the state's accounting system, with corresponding project IDs, which identify the grant award year. The department uses project IDs to track the various activities authorized by the federal grant.

Reimbursement Request Process

The department awards 21^{st} CCLC funds to subrecipients and then reimburses the subrecipients for their expenditures. The subrecipients use a grants management system, ePlan, which is hosted by a third-party vendor, to submit funding applications with budgets, reimbursement requests, and any other related items, to the department. In September 2014, the department transitioned the 21^{st} CCLC program from its old grants management system (the Federal

Application Consolidated Tracking System, or FACTS) to ePlan, where subrecipients submit reimbursement requests to the department for expenditures charged to the 21st CCLC program, which the department then pays.

When subrecipients submit a reimbursement request in ePlan, they choose the appropriate federal program to charge the request; however, they do not select the particular grant year to charge. Based on system design, ePlan should automatically charge the oldest available grant, provided that funds are available for that grant in the subrecipient's budget. In Edison, these grants are associated with speedcharts,[7] which contain the necessary fiscal information to ensure that the correct project ID is charged.

Condition

Sample A

We selected a nonstatistical random sample of 60 expenditure transactions, which totaled $1,957,012, from a population of 630 expenditures, totaling $7,711,431, that were charged to the 2013 21st CCLC grant after it closed on September 30, 2014, to determine if the expenditures were obligated during the grant's period of performance. For 2 of 60 expenditures tested (3%), we found that these expenditures were reimbursements to 21st CCLC subrecipients for expenditures that were obligated after September 30, 2014: therefore, these expenditures should have been charged to the 2014 grant instead of the 2013 grant. These payments totaled $24,605, which represents known federal questioned costs for this sample.

Sample B

We selected a nonstatistical random sample of 85 21st CCLC expenditures, which totaled $1,072,135, from a population of 1,978 administrative and programmatic expenditure transactions, totaling $30,100,658. We found that 3 of 85 expenditure items (4%) occurred outside the period of performance. These three items were reimbursements to subrecipients who had obligated the funds after September 30, 2014. These payments totaled $38,338, which represents known federal questioned costs from our sample.

Additionally, based on discussions with management, we found that no one at the department conducted a review of expenditures charged to federal grants after the end of the period of performance to ensure the expenditures were properly obligated within the period of performance.

Risk Assessment

In its risk assessment, management did address the risk of expenditures charged outside the period of performance to federal grants. The 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report identified two risks related to period of performance:

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[7] Speedcharts are used in Edison for data entry. A speedchart number is entered, rather than entering individual fields to properly account for transactions. The speedchart automatically prepopulates fields with the associated fiscal information to increase data entry efficiency while reducing keying errors.

- Federal funds are not expended within time frames specified in the federal award; and
- The agency fails to seek reimbursement during the specified funding period.

Management listed training and the implementation of ePlan as control activities; however, management's reliance on training and ePlan were not effective enough to prevent the payment of expenditures obligated outside the period of performance.

Criteria

- "Period of availability of funds,"[8] Title 34, *Code of Federal Regulations,* Part 80, Section 23, states,

  > Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Cause

According to the Director of Extended Learning Programs and the fiscal director, these errors occurred when the department used ePlan to process 21st CCLC reimbursements. When department management processed reimbursement requests in ePlan, the requests were charged against the oldest grant first—in these cases, the 2013 grant—until the grant's funds were exhausted; then ePlan would begin charging the fiscal year 2014 grant. In addition, management stated that they only created one speedchart in Edison, and this speedchart pointed to the 2013 grant instead of an open grant.

In February 2015, management corrected the issues relating to the 2012 21st CCLC grant described in the *2014 Single Audit Report;* however, because of the change in grants management systems, the issues involving the 2013 grant continued after the date the department implemented corrective action.

Effect

When the department does not have proper internal controls in place to determine the timing of obligations to ensure subrecipient reimbursements are charged to the proper grant award, it increases the risk that the department is expending federal funds for expenditures obligated outside the period of performance. This could result in state refunds/reimbursements to the U.S. Department of Education for expenditures that were obligated and paid outside this time period.

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[8] In the 2015 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, the OMB changed the terminology "Period of Availability of [federal] funds" to "Period of Performance." The definition for either term did not change.

Known Questioned Costs

Questioned Costs for Sample A		
Expenditure Type	**Obligation Dates**	**Amount**
Reimbursement Request 1	10/7/14-11/30/14	$16,496
Reimbursement Request 2	10/20/14-10/31/14	$8,109
	Total Questioned Costs	**$24,605**

Questioned Costs for Sample B		
Expenditure Type	**Obligation Dates**	**Amount**
Reimbursement Request 1	10/1/14-11/30/14	$12,853
Reimbursement Request 2	10/1/14-10/31/14	$8,972
Reimbursement Request 3	11/1/14-11/30/14	$16,513
	Total Questioned Costs	**$38,338**

Total Known Questioned Costs for Sample A and Sample B $62,943

Recommendation

The Commissioner should work with program staff and fiscal staff to implement adequate procedures to ensure reimbursements made to subrecipients after the grant award period are for obligations that occurred within the period of performance. The 21st CCLC program staff should also review reimbursement requests from the subrecipients to ensure the correct grant is charged before approving the reimbursement requests for payment, especially when grants approach the end of their period of performance. Management should update the department's annual risk assessment to reflect any new controls the department adds to the process for expending federal funds within time frames specified in the federal award.

Management's Comment

We concur. The department has implemented a procedure to review Edison report AP80 to detect any expenditures obligated outside the period of availability of a federal award. For the expenditures cited as questioned cost in the finding, the department moved the expenditures to an open federal award for the program.

Finding Number	2015-008
CFDA Number	84.287
Program Name	Twenty-First Century Community Learning Centers
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S287C110043, S287C120043, S287C130043, S287C140043
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency, Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed – Material Weakness and Noncompliance Allowable Costs/Cost Principles – Material Weakness and Noncompliance Subrecipient Monitoring – Significant Deficiency and Noncompliance
Questioned Costs	$116,027
Repeat Finding	2014-011

The department did not effectively monitor subrecipients responsible for administering the Twenty-First Century Community Learning Centers grants, and as a result, subrecipients were reimbursed for costs that were unallowable, unreasonable, or unsupported

Background

The Tennessee Department of Education spent over $30,487,000 on the Twenty-First Century Community Learning Centers (21st CCLC) program during the fiscal year ended June 30, 2015. The 21st CCLC is a federal program to establish or expand community learning centers that provide kindergarten through high school students with academic enrichment opportunities designed to complement the students' regular academic program. Community learning centers must also offer literacy and related educational development to these students' families. The centers—which can be located in elementary or secondary schools, nonprofit organizations, community resource agencies, churches, or other similarly accessible facilities—provide a range of high-quality services to support student learning and development.[9] At the same time, centers help working parents by providing a safe environment for students during times when school is not in session.

To administer the 21st CCLC program statewide, the department awards program funds through a competitive process to subrecipients, which are local educational agencies, community-based organizations, churches, other public or private entities, or associations of two or more of such agencies, organizations, or entities. These entities complete grant applications and submit them to the department. Once awarded funds, the entities submit reimbursement requests to the department for the costs incurred to provide services to students.

[9] The services include tutoring and mentoring; homework help; academic enrichment (such as hands-on science or technology programs); community service opportunities; and music, arts, sports, and cultural activities.

In fiscal year 2015, the department awarded 21st CCLC grants to 95 subrecipients, and based on the department's accounting records, the department reimbursed these entities over $29,800,000 (99%) of total 21st CCLC funds.

<u>Corrective Action Implemented After 2014 Single Audit</u>

In the prior audit, we noted in a finding that the department did not effectively monitor subrecipients responsible for administering the 21st CCLC program, and as a result, program subrecipients were reimbursed for costs that did not comply with federal program requirements.

In March 2015, management implemented corrective action to address the prior audit finding by hiring an additional staff person to conduct subrecipient monitoring, providing additional training related to the allowable costs under the program, and updating the *21st CCLC Program Manual* to include additional information on subrecipient monitoring as well as unallowable costs. Even with some corrective action, we still found during the current audit instances where the department reimbursed subrecipients for unallowable, unreasonable, or unsupported expenditures.

The Director of Extended Learning Programs stated that some of the current questioned costs (described in detail below) occurred before the department provided subrecipients with more in-depth training on allowable costs. She also stated that the department had been working to make improvements to its processes to ensure that these unallowable, unreasonable, and unsupported costs do not reoccur. According to the Director, the improvements that have taken place during fiscal year 2015 include revising the monitoring instrument, conducting a more robust examination of fiscal policies and procedures, and conducting trainings and meetings with subrecipients more frequently. The department also has planned corrective action over the remainder of fiscal year 2016, which will involve more training and monitoring as well as attempting to hire an additional staff member to help provide greater oversight to the program.

Overall, we determined that it will take time for some of the department's corrective action steps (such as providing subrecipients with more in-depth training) to produce results. In the meantime, though, the department should continue to improve upon its corrective action plan. We will again evaluate the effectiveness of the department's corrective actions in the next audit.

Subrecipient Monitoring

<u>Condition, Criteria, and Cause</u>

To ensure that subrecipients administer the 21st CCLC program in accordance with federal requirements, the department is required to conduct annual site visits to an adequate number of subrecipients and conduct programmatic and fiscal monitoring. Based on our review of monitoring documentation, the department's 21st CCLC program staff conducted onsite monitoring visits to 28 of their 95 subrecipients during fiscal year 2015. To determine if 21st CCLC program staff conducted these reviews in accordance with federal subrecipient monitoring requirements, we requested the monitoring tool that staff used to document their monitoring efforts.

During the prior audit, we discussed with management the deficiencies we noted with their monitoring tool. In response to these discussions, management implemented a revised monitoring instrument in April 2015. During our review, we determined that program staff used the old tool for 19 of the 28 subrecipients and used the newly revised monitoring tool for 9 subrecipients. Because management had implemented corrective action by designing a new monitoring tool, we focused our audit work on the nine subrecipients that were monitored with the revised tool to determine if the 21st CCLC program staff complied with federal subrecipient monitoring requirements. Based on the testwork performed, we found that for all 9 subrecipients, management had identified and recorded compliance deficiencies through the new monitoring instrument but had not fully captured the extent of the subrecipients' compliance or control deficiencies. As a result, the department program staff failed to seek appropriate corrective action from the subrecipients.

The Director of Extended Learning Programs stated that no corrective action was listed because no corrective action was needed at the time of the onsite monitoring visit. We, however, identified comments written by the 21st CCLC program staff on the monitoring tool either under the "Additional Comments" or "Notes" section that indicated to us that there were compliance and/or control deficiencies that required corrective action by the subrecipients. For example, we noted comments written indicating that a subrecipient needed Personnel Activity Reports[10] (PARs) or did not have PARs to support the distribution of employees' salaries.

According to Title 2, *Code of Federal Regulations*, Part 200, Section 331, "Grants and Agreements," the department must

> Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and the subaward performance goals are achieved.

The department's subrecipient monitoring must include "following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the [department] detected through audits, on-site reviews, and other means."

Risk Assessment

The 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report identified as a risk the department's failure to ensure that corrective action is taken on deficiencies noted during monitoring. To mitigate this risk, management identified that the control activity was procedures for subrecipients to file corrective action reports and department staff to follow up with subrecipients to ensure corrective action was taken; however, these procedures were not effective for the 21st CCLC program.

[10] Personnel Activity Reports (PARs) are used by employees working under multiple cost objectives to make after-the-fact attestations about work performed under various funding sources, similar to a timesheet. The PAR is used by the accounting department to make allocations of an employee's salary to the various funding sources the employee worked under.

No Documentation of Supervisor Review for Monitoring Activities

Based on testwork performed, we also found that management did not document their review of all 28 monitoring tools. The Director of Extended Learning Programs stated she reviewed all of the monitoring tools, and another administrative staff person should have signed off on them. We could not, however, substantiate that the supervisory reviews were performed.

Management is responsible for designing, implementing, and maintaining a system of internal control to provide reasonable assurance that the department complies with applicable laws and regulations, including the critical subrecipient monitoring process.

Effect

When the department does not require corrective action of its subrecipients, including proper follow-up of corrective action requested, neither the department nor its subrecipients are in compliance with federal program requirements. Without appropriately identifying and requiring corrective action through the subrecipient monitoring process, the department increases the risk of subrecipients expending federal funds for activities and costs that are unallowed under federal requirements.

Expenditures

Condition, Criteria, and Cause

From a population of 978 programmatic expenditure transactions, totaling $29,810,098, we tested a nonstatistical, random sample of 60 transactions, totaling $1,051,112. We conducted a detailed review of these 60 expenditure transactions to determine if the subrecipients appropriately charged costs to the program. Based on the testwork performed, we found that for 21 of 60 expenditure transactions tested (35%), the department reimbursed the subrecipients for expenditures that were either unallowable, unreasonable, or unsupported under federal program requirements as noted in Table 1.

Table 1
Summary of Expenditure Issues and Questioned Costs

Expenditure Issues	Questioned Costs
Unallowable and Unreasonable Entertainment Expenditures	$56,155
Unallowable and Unreasonable Non-Program Related Expenditures	39,822
Unallowable and Unsupported Travel Expenditures	150
Unallowable Food/Snack Expenditures	3,461
Unsupported Expenditures	16,439
Total	**$116,027**

Unallowable and Unreasonable Entertainment Costs

The entertainment expenditures included items such as Memphis Redbirds tickets, a field trip to Kentucky Splash waterpark,[11] movie theater tickets, hot air balloon rides, inflatable equipment,[12] and game truck rentals.[13] These entertainment expenditures occurred before the department took corrective action. We also found an entertainment expenditure item for a prom DJ that occurred after the department took corrective action.

The *21st CCLC Program Manual* lists "entertainment (amusement, diversion, social activities)" as non-allowable. Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment B, Section 14, additionally states,

> Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

Unallowable and Unreasonable Non-program and Food Costs

We also found that subrecipients used grant funds to purchase t-shirts, food for staff meetings, and unhealthy foods to feed students. Subrecipients also paid travel expenses for in-state and out-of-state professional development training for the subrecipients' staff who did not work in the 21st CCLC program. For the non-program questioned costs, $24,722 occurred before and $15,100 occurred after the department took corrective action. For the food costs, $2,656 occurred before and $805 occurred after the department took corrective action. We questioned all of these costs as unallowable and unreasonable.

According to the *21st CCLC Program Manual*, the following are listed as unallowable:

- Food[14] (refreshment, snacks, meals);
- Incentives for students (prizes, plaques, t-shirts, etc.);
- Non-academic field trips; and
- Travel expenses for individuals not involved with the project.

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[11] The subrecipient traveled from Knoxville, Tennessee, to Williamsburg, Kentucky, which is approximately 70 miles, for a summer field trip.

[12] Based on our review of the inflatable equipment's receipts, it appeared the equipment benefited the school's entire student body, rather than only 21st CCLC program students. The subrecipient did not provide an explanation describing the equipment's use to meet 21st CCLC program objectives; therefore, we could not determine if the costs met the program's objectives.

[13] Game trucks are trucks and/or trailers with large televisions and video game consoles and are generally used for parties.

[14] Based on our discussions with department management, we determined that food was allowable in the following situations: healthy meals or snacks that meet U.S. Department of Agriculture, Food and Nutrition Service's standards for students, food provided during parent night activities, or food purchased as part of student lesson plans. Based on our review of supporting documentation, the food purchased was provided during staff training and was therefore unallowable.

In addition, the *Tennessee Department of Education, 2015-16 Extended Learning Program Training, Fall 2015 Grantee Meetings* PowerPoint presentation states that unhealthy food is a non-allowable expenditure.

Unallowable and Unsupported Travel Costs

We found that the department's program staff reimbursed subrecipients for travel expenditures that did not comply with the State of Tennessee's Comprehensive Travel Regulations, as required. Specifically the department reimbursed the subrecipients for travel expenditures at higher rates than allowed for mileage (the subrecipients were reimbursed at $0.56 per mile rather than the authorized $0.47 per mile). We also found one subrecipient was reimbursed for lodging costs at a rate above the CONUS[15] rate of $84 and did not provide documentation to support the higher reimbursement rate. For the travel questioned costs, $41 was for mileage and occurred before the department took corrective action, and $109 was for mileage and lodging that occurred after the department took corrective action.

Section C.4, "Travel Compensation," of the subrecipient's contract states,

> Reimbursement to the Grantee for travel, meals, or lodging shall be subject to amounts and limitations specified in the 'State Comprehensive Travel Regulations'.

Unsupported Costs

Finally, subrecipients could not provide supporting documentation for $16,439 of expenditures; therefore, we could not determine if these expenditures met federal program requirements. We questioned the total $16,439 for these unsupported expenditure transactions. For the unsupported questioned costs, $5,394 occurred before and $11,045 occurred after the department took corrective action.

According to OMB Circular A-87, Attachment A, Part C, "To be allowable under Federal awards, costs must . . . [b]e adequately documented."

Known Questioned Costs

The following table illustrates the totals for the programmatic expenditure population, our programmatic expenditure sample, the questioned costs resulting from our testwork, and the error rate occurring before the department implemented corrective action (July 1, 2014, through March 31, 2015) and after the department implemented corrective action (April 1, 2015, through June 30, 2015).

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[15] The United States General Services Administration establishes travel reimbursement rates in the continental United States (CONUS). The State of Tennessee's Comprehensive Travel Regulations uses CONUS rates to establish what the state will reimburse for hotel travel expenses.

Table 2
Programmatic Expenditures Before March 2015 and After Corrective Action in April 2015

	Population	Sample Tested	Errors	Error Rate
Before Corrective Action	$ 16,182,310	$ 878,840	$ 88,468	10%
After Corrective Action	$ 13,627,788	$ 172,272	$ 27,559	16%
Total	$ 29,810,098	$ 1,051,112	$ 116,027	-

Effect

Without a sufficient monitoring process to ensure that subrecipients spend grant funds in accordance with the department's contract and grant requirements, the department will continue to reimburse its subrecipients for costs that are unallowable, unreasonable, and unsupported.

Recommendation

The Department of Education should implement corrective action procedures to its monitoring process for all 21st CCLC subrecipients to ensure the subrecipients are administering the program effectively and spending grant funds based on allowable cost guidelines. In addition, the department should ensure adequate procedures are in place for subrecipients to maintain and submit supporting documentation (e.g., invoices, receipts, and travel claims) that will allow the department to verify that the subrecipients' reimbursements are based on the program's objectives, are permitted under federal requirements, and are properly supported and approved. Finally, the department must ensure its monitoring process includes required communication to its subrecipients of identified control and compliance deficiencies and perform adequate follow-up until those deficiencies are corrected.

Management's Comment

We partially concur with the finding. We concur that non-program related expenditures, travel expenditures not in compliance with State of Tennessee Comprehensive Travel Regulations, and unsupported expenditures should not have been charged to the program. We do not concur with some of the questioned cost related to professional development, supplemental snacks when federal food reimbursement programs are not available, and food for staff development.

We concur that a strong subrecipient monitoring process should be maintained for the 21st Century Community Learning Centers (21stCCLC) program. Over the last 15 months, the department has added two new staff positions to support the monitoring function. As a result, the department has been able to significantly increase the scope of its on-site and desktop monitoring. For example, four reimbursement requests are selected randomly each month for a detailed desktop review of supporting documentation to verify expenditures are allowable and adequately supported. The executive director of the Office of Consolidated Planning and Monitoring is also conducting monthly check-ins with the 21stCCLC program coordinator to ensure the work of the 21stCCLC program office is aligned with the department's other federal Elementary and Secondary Education Act programs. By the end of the fiscal year, the department will also update its 21stCCLC program manual to provide enhanced guidance to subrecipients. The department is also continuing its commitment to providing professional development for 21st CCLC subrecipients through webinars and regional conferences. The department has also updated its subrecipient monitoring documents by adding a corrective action plan section to the documents.

Finding Number	2015-009
CFDA Number	84.367
Program Name	Improving Teacher Quality State Grants
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S367A120040
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Period of Performance
Questioned Costs	$821,258
Repeat Finding	N/A

Improving Teacher Quality State Grants program expenditures were obligated outside the period of performance

Background

The U.S. Department of Education's Title II, Part A of the Elementary and Secondary Education Act (ESEA) of 1965, as amended by the No Child Left Behind Act of 2001, provides states with Improving Teacher Quality State Grants (ITQ, or Title II, Part A). These ITQ grants allow the states to provide funding to state educational agencies, local educational agencies (LEAs), state agencies for higher education, and partnerships consisting of institutions of higher education, high-need LEAs, and other entities. In an effort to increase the academic achievement of all students, ITQ helps schools and school districts to improve teacher and principal quality (including hiring teachers to reduce class size) and to ensure that all teachers are highly qualified.

Like most federal programs, federal funding for the ITQ program is only available to the department and its subrecipients for a limited time. Each year, the Tennessee Department of Education (the department) receives a Grant Award Notification from the U.S. Department of Education outlining the ITQ award amount and the period of performance (federal funding period). During fiscal year ended June 30, 2013, the department received a $12,069,703 grant, award number S367A120040, which had a period of availability of July 1, 2012, through September 30, 2013. The original period of performance was 15 months; however, as stated in the Tydings Amendment (Title 20, *United States Code,* Chapter 31, Section 1225[b]), funds unobligated by September 30, 2013, can be used for an additional 12 months. Based on the Tydings Amendment, the period of performance for this grant award covered July 1, 2012, through September 30, 2014, or 27 months. On October 1, 2012, the U.S. Department of Education granted the department an additional $28,533,454, under this grant award, which had the same period of performance as the original award. With the additional award, the department's award totaled $40,603,157 for fiscal year ended June 30, 2013.

Edison Projects

When a new grant is received, the department establishes the grant in Edison, the state's accounting system, with corresponding project IDs, which identify the grant award year. The department uses project IDs to track the various activities authorized by the federal grant. For example, this grant award had three different project IDs to track the related grant activities:

- grant administration,
- flow through funds to LEAs, and
- statewide program activities.

Reimbursement Request Process

The department awards ITQ funds to subrecipient LEAs and then reimburses the LEAs for their expenditures. The LEAs use a grants management system, ePlan, which is hosted by a third-party vendor, to submit funding applications with budgets, reimbursement requests, and any other related items, to the Tennessee Department of Education. Based on these reimbursement requests, the department pays the LEAs and charges the appropriate federal program.

When LEAs submit a reimbursement request in ePlan, the LEAs choose the appropriate federal program to charge the request; however, they are not provided the option to select the particular grant year to charge. For example, LEA staff would select "Title II, Part A" (Improving Teacher Quality State Grants program); staff cannot select "**2013** Title II, Part A." Based on our discussion with the executive director of the Office of Local Finance, ePlan should automatically charge the oldest available grant, provided that funds are available for that grant in the LEA's budget. These grants are associated with speedcharts,[16] which contain the necessary fiscal information to ensure that the correct project ID is charged in Edison. According to the executive director of Local Finance, Edison will also charge the grant ePlan automatically selects, as long as funds remain. If all funds have been expended, the expenditure will be charged to the next available grant.

Condition

We tested the population of 24 expenditure transactions, totaling $1,556,183.71, that were charged to the 2013 ITQ grant after it closed on September 30, 2014, to determine if the expenditures were obligated during the grant's period of performance. For 3 of 24 expenditures tested (13%), we found that these expenditures were reimbursements to two local educational agencies for expenditures that were obligated after September 30, 2014; therefore, these expenditures should have been charged to the 2014 grant instead of the 2013 grant. The payments totaled $821,258, which represents federal questioned costs.

Additionally, based on discussions with management, we found that no one at the department conducts a review of expenditures charged to federal grants after the end of the period of performance to ensure the expenditures occurred within the period of performance.

[16] Speedcharts are used in Edison for data entry. A speedchart number is entered rather than entering individual fields to properly account for transactions. The speedchart automatically prepopulates fields with the associated fiscal information to increase data entry efficiency while reducing keying errors.

Criteria

"Period of availability of funds,"[17] Title 34, *Code of Federal Regulations*, Part 80, Section 23, states,

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Cause

Based on discussion with the executive director of the Office of Local Finance, the department relies upon ePlan to charge expenditures to the oldest available grant. The executive director was unable to explain why the problems occurred and indicated that she would need to work with the ePlan vendor to address them. Based on our discussion and understanding of the controls in ePlan, the Office of Local Finance is relying upon an ineffective control.

Risk Assessment

In its risk assessment, management did address the risk of expenditures charged outside the period of performance to federal grants. The 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report identified two risks related to period of performance:

- Federal funds are not expended within time frames specified in the federal award; and
- The agency fails to seek reimbursement during the specified funding period.

Management listed training and the implementation of ePlan as control activities; however, management's reliance on training and the lack of a control for grant expiration in ePlan were not effective enough to prevent the payment of expenditures obligated outside of the period of performance.

Effect

When the department does not have proper internal controls in place to ensure program and fiscal staff properly account for grant obligations and that subrecipient reimbursements are charged to the proper grant award, the department increases the risk that it is expending federal funds for expenditures obligated outside the period of availability. This could result in state refunds/reimbursements to the U.S. Department of Education for expenditures that were obligated and paid outside this time period.

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[17] In the 2015 Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, the OMB changed the terminology "Period of Availability of [federal] funds" to "Period of Performance." The definition for either term did not change.

Known Questioned Costs

Questioned Costs for Expenditures Obligated Outside the Period of Performance		
Expenditure	**Obligation Date(s)**	**Amount**
LEA 1 - Reimbursement Request 1	October 2014	$464,487
LEA 1 - Reimbursement Request 2	November 2014	355,077
LEA 2 - Reimbursement Request 1	December 2014	1,694
Total Questioned Costs		**$821,258**

Recommendation

The Commissioner should work with program staff and the Office of Local Finance to implement adequate procedures to ensure that reimbursements made to local educational agencies after the grant award period of performance are for obligations that occurred within the period of performance. The executive director of the Office of Local Finance should also consult with the ePlan vendor to address the lack of systematic controls to identify and/or prevent reimbursement payments after the period of performance for grants that have expired.

Management's Comment

We concur. The department has implemented a procedure to review Edison report AP80 to detect any expenditures obligated outside the period of availability of a federal award. For the expenditures cited as questioned cost in the finding, the department moved the expenditures to an open federal award for the program.

Finding Number	2015-010
CFDA Number	84.377 and 84.388
Program Name	School Improvement Grants Cluster
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S377A090043, S377A100043, S377A110043, S377A120043, S388A090043
Federal Award Year	2009 through 2013
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Costs Principles
Questioned Costs	\$315,860 (84.377) \$90,032 (84.388)
Repeat Finding	2014-013

As noted in two prior audits, the Department of Education reimbursed the Achievement School District for costs that were not adequately supported; furthermore, both the Department of Education and the Achievement School District lacked internal controls over School Improvement Grants program expenditures

Background

School Improvement Grants

The United States Department of Education assists states through the School Improvement Grants, which are used to provide funds to priority schools, those that are the lowest-performing 5% of all schools in terms of academic achievement. In fiscal year 2015, the department spent School Improvement Grants program funds totaling \$29,316,458 to impact academic achievement of students in these schools through successful implementation of school intervention models.

Achievement School District

Created by Section 49-1-614, *Tennessee Code Annotated*, the Department of Education's Achievement School District (ASD) is a school district created for the purpose of taking over poorly performing schools. According to Section 49-1-614, ASD operates as a local educational agency (LEA) to oversee persistently low-achieving schools for at least five years after they are removed from their current LEA. ASD began its first year of operation during the 2012 – 2013 school year.

Summary of the Department's Federal Reimbursement Process

The Department of Education seeks reimbursement from the United States Department of Education based on proper administration of the federal grant award. The department awards funds to LEAs to provide education to the state's school children. The LEAs, including the ASD, submit consolidated reimbursement requests to the department as needed to recoup the costs of providing services. At all levels, the requests for reimbursement are based on actual costs incurred to administer the grant awards and achieve the grant objectives.

ASD's Reimbursement Process with CMOs and Achievement Schools

During fiscal year 2015, the ASD was responsible for 11 schools that were eligible to receive School Improvement Grants funding:

- six schools were managed by nonprofit charter management organizations (CMOs) via contract with ASD; and
- five schools were managed directly by ASD (called Achievement Schools or direct run schools).

ASD recruits CMOs locally and nationally and matches them with low-achieving schools. CMOs must apply to ASD and then are subject to the ASD's approval process, which includes application review, interviews, and school visits. If the CMOs are approved, ASD contracts with them to operate these schools to increase student academic performance, develop educators, increase community involvement, share successful practices with other educators, and promote change in public schools. As defined by their contracts, CMOs are financially responsible for their schools' operational and payroll costs and then submit reimbursement requests along with supporting documentation to ASD at least quarterly to recover these costs. The ASD Federal Programs Fiscal Manager reviews these requests and the supporting documentation and approves the CMOs' reimbursements for payment.

Because the Achievement Schools are run directly by ASD, these schools do not submit reimbursement requests to ASD like the CMOs. Instead, these schools enter their expenditures directly into ASD's accounting system. The Achievement Schools Chief Financial Officer, however, is responsible for compiling the supporting documentation for the direct run schools' expenditures before submitting reimbursement requests to the department.

ASD's Reimbursement Request to the Department of Education

In order to obtain School Improvement Grants funding from the department, ASD submits to the department a consolidated reimbursement request consisting of the individual reimbursements to the CMOs as well as the Achievement Schools' expenditures through ePlan, the department's grants management system. In addition, the department requires ASD to upload its supporting documentation for the consolidated reimbursement request into ePlan. The department's School Improvement Fiscal Director is responsible for providing programmatic approval of ASD's School Improvement Grants reimbursement requests, and the department's Director of Local Disbursements also approves the reimbursement request to initiate the payment to the ASD.

<u>Condition and Criteria</u>

We tested nine consolidated reimbursement requests from ASD to the department involving the School Improvement Grants, totaling $2,496,952, from a population totaling $6,563,175. Based on our testwork, we found the following.

Noncompliance With Allowable Cost Principles

For six of nine consolidated reimbursements tested (67%), we found that ASD could not provide sufficient documentation to justify payroll charges to the School Improvement Grants program. Specifically, ASD could not provide time and effort information for CMO and ASD employees' work activity.

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when payroll expenditures are charged to federal awards. Specifically, it states,

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Furthermore,

> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. . . .
>
> Personnel activity reports or equivalent documentation must meet the following standards:
>
> 1. They must reflect an after the fact distribution of the actual activity of each employee,
> 2. They must account for the total activity for which each employee is compensated,
> 3. They must be prepared at least monthly and must coincide with one or more pay periods, and
> 4. They must be signed by the employee.

Finally, OMB Circular A-87, Section C, "Basic Guidelines," states, "To be allowable under Federal awards, costs must . . . be adequately documented."

According to Principle 1.04 of the Government Accountability Office's *Standards for Internal Control in the Federal Government*,

> The oversight body and management's directives, attitudes, and behaviors reflect the integrity and ethical values expected throughout the organization. The

oversight body and management reinforce the commitment to doing what is right, not just maintaining a minimum level of performance necessary to comply with applicable laws and regulations, so that these priorities are understood by all stakeholders, such as regulators, employees, and the general public.

Deficiencies and Known Questioned Costs

The specific deficiencies and federal questioned costs we noted are described in the following table.

Table
ASD-Related Deficiencies and Federal Questioned Costs

	Department Reimbursement Date	Consolidated Reimbursement Request Total	Known Questioned Costs	Deficiency Description
CMO 1	3/30/2015	*$307,435.93*	$201,275	Payroll expenditures ($199,387) were not supported by semi-annual certifications or personnel activity reports (PARs). In addition, the department reimbursed ASD for $1,888 more than the amount supported.
	8/15/2014	*$143,299.01*	$90,032	The CMO provided PARs to the audit team as support for the payroll expenditures; however, the CMO retracted the documentation when it discovered that an employee had falsified the documents. A CMO employee forged signatures on some PARs submitted because the employee felt pressured by ASD fiscal staff to provide documentation.
CMO 2	3/11/2015	*$645,419.43*	$16,095	The CMO did not provide PARs but rather allocations of payroll funds, which was not sufficient documentation according to federal requirements.
	3/19/2015	*$146,394*.70	$53,798	
Achievement Schools-Direct Run	6/11/2015	*$179,301.93*	$35,254	We recalculated the medical insurance amounts supported by the individual ASD employee payroll statements; however, the amounts requested could not be reconciled to the amounts reimbursed.
	4/20/2015	*$345,127.19*	$9,438	One ASD employee's payroll was 100% charged to School Improvement Grants; however, based on his signed PAR, only part of the salary should have been charged to this grant, resulting in $9,188 in federal questioned costs. Also, based on our review of supporting documentation, one ASD employee's salary was overcharged by $250.
Total Known Questioned Costs			**$405,892**	

Lack of Adequate Internal Controls Over Reimbursement Process

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.02, states, "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. . . . As part of the risk assessment component, management identifies the risks related to the entity and its objectives. . . . Management designs control activities to fulfill defined responsibilities and address identified risk responses."

The principle goes on to state, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. . . . Documentation and records are properly managed and maintained."

Based on our inquiry, observation, and testwork, we found internal control deficiencies at every level of the reimbursement process as described below.

<u>ASD</u>

- The ASD Federal Programs Fiscal Manager did not perform an adequate review of CMO supporting documentation before approving reimbursement requests for payment to the CMOs. For example, in several cases, the ASD had to request basic information from the CMOs to support the reimbursement requests in response to our inquiries. Based on the evidence, it is unclear how the Federal Programs Fiscal Manager could determine compliance with the federal requirements at the time he approved payments because the CMOs' documentation requests were not complete to support the request.

- The ASD Federal Programs Fiscal Manager also did not perform an adequate review of the Achievement Schools' expenditures before consolidating them with the CMO reimbursement request and submitting them to the department for payment. We found that these expenditures were not always properly supported, particularly the payroll items included in the requests. Again, it is unclear how the Fiscal Manager could determine compliance with federal requirements without proper support of expenditures.

- While we were attempting to gather support for the expenditures charged to School Improvement Grants, we had numerous conversations with the ASD Federal Programs Fiscal Manager, the Chief Financial Officer of the Achievement Schools, the ASD Chief Financial Officer, and the Federal Programs Director regarding the type of information we needed to determine compliance with federal requirements; however, the staff at ASD provided insufficient information on several occasions before they finally produced documentation that they said would explain how they determined the amounts on the consolidated reimbursement requests. Even after the information was provided, we determined that the documentation did not support the requests for reimbursement.

Tennessee Department of Education

The department also did not perform an adequate review of the consolidated reimbursement requests from ASD before approving the requests for payment. This is the last step before the department "draws down"[18] federal funds from the United States Department of Education. We found that the consolidated reimbursement requests and supporting documentation uploaded in ePlan did not contain enough information for department staff to ensure ASD complied with federal requirements. Specifically, we noted the following deficiencies:

- Support that ASD staff uploaded to ePlan did not contain account line summaries, breakouts of payroll expenses, and semi-annual certifications or PARs to support the payroll expenses. As a result, it was impossible to reconcile or trace the amounts from the supporting documentation to the amounts that were requested for reimbursement.

- The expenditure amounts listed on some consolidated reimbursement cover sheets did not match the department's expenditure documentation from Edison, the state's accounting system. In those instances, the total of the supporting documentation exceeded the amount requested. In a number of cases, the reimbursement cover sheet total had been drawn through, and a handwritten number was put to the side, indicating that the reimbursement had been reduced. Based on our understanding, however, the ASD Federal Programs Fiscal Manager did not remove any of the original support from the packet, and we could not determine which documentation was intended to support the reimbursement request. Additionally, the Federal Programs Fiscal Manager did not provide an explanation concerning the reduction.

Based on our review of the department's subrecipient monitoring risk-based tool, which is a spreadsheet staff use to determine each subrecipient's risk level, the department identified ASD as an elevated risk. As a result of this higher risk classification, the ASD is required to submit supporting documentation for School Improvement Grants reimbursements to ePlan. Despite this additional requirement, the School Improvement Fiscal Director only performed a cursory review (beginning in March 2015) of the documentation to compare expenditure types to the budget, to ensure funds were available, and to determine if supporting documentation was uploaded. Based on the problems noted in this finding and the questioned costs identified, we believe this review was not adequate to prevent or detect reimbursement of expenditures that were not adequately supported as required by federal regulations.

[18] To obtain federal dollars to administer federal programs, like the School Improvement Grants program, each day, the department "draws down" funds electronically from the United States Department of Education based on federal program expenditures entered in Edison. Edison compiles the federal program expenditures into a billing worksheet, and the department uses that worksheet to request or "draw down" funds from the federal government.

Risk Assessment

In the 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report, the department identified the risk that costs charged to federal programs will not be adequately documented at the department level or the subrecipient level. This risk was specifically identified for the ASD's School Improvement Grants program expenditures. The control activity management identified was to continue to stress the importance of maintaining adequate supporting documentation for expenditures and for the department to strengthen and improve its subrecipient monitoring. Based on the work that we performed, this control is not effective to prevent the payment of expenditures that were not adequately documented.

Cause

Based on our interaction with ASD staff, it appears that ASD federal programs staff and Achievement Schools' staff do not fully understand federal cost principles and what constitutes appropriate, sufficient supporting documentation of costs charged to federal programs. Our review of training documentation revealed that while ASD is providing training to staff and CMOs about these requirements, the training does not appear to be effective.

The ASD Federal Programs Fiscal Manager did not require CMOs or the ASD Chief Financial Officer to submit adequate documentation for School Improvement Grants expenditures. Without adequate documentation, the ASD Federal Programs Fiscal Manager could not properly review reimbursement requests before approving them for payment. In turn, the ASD submitted consolidated reimbursement requests to the department for payment that contained underlying expenditures that were not adequately documented.

Additionally, Department of Education staff did not properly review the supporting documentation submitted by the ASD before paying the reimbursement request. Based on our discussion with the School Improvement Fiscal Director, he began reviewing support for the consolidated reimbursements around March 2015; however, based on our testwork, this review was not adequate to prevent payment for unsupported costs.

During our discussions with ASD management, ASD relied on the CMOs to request reimbursement for only allowable expenditures, and as noted above ASD did not review the CMOs' documentation. Additionally, the department relied solely on training provided to ASD, along with the department's insufficient review of ASD's supporting documentation, to prevent the department from reimbursing unallowable costs.

Effect

When the department and ASD do not have internal controls in place to ensure that the expenditures are allowable and adequately supported, management's risk that School Improvement Grant funds will be used for unallowable activities and costs increases.

Recommendation

The Commissioner of the Department of Education should work with Achievement School District Superintendent and fiscal staff within each CMO to ensure that proper internal controls are designed and in place to ensure all levels comply with federal regulations when spending grant funds.

The Achievement School District Federal Programs Fiscal Manager should thoroughly review reimbursement requests and only approve the requests for payment if they are properly supported in compliance with federal requirements. Additionally, the Fiscal Manager and the Achievement Schools Chief Financial Officer should ensure that all Achievement Schools' expenditures are in compliance with federal requirements before submitting to the department for repayment. ASD should continue to train and communicate with school operators about federal requirements, including cost principles.

Furthermore, the School Improvement Fiscal Director or another department employee should thoroughly review the ASD's consolidated reimbursements requests and supporting documentation to ensure that all expenditures charged to the School Improvement Grants program comply with federal requirements. The department should continue to monitor the Achievement School District to ensure that the ASD has implemented appropriate internal controls over the School Improvement Grants reimbursement process.

Finally, management should evaluate the effectiveness of the control activities they have identified for this risk and update the department's annual risk assessment to reflect any new controls management implements.

Management's Comment

We concur. The Achievement School District (ASD) and other department divisions that support the ASD are currently undergoing internal review as directed by the department's Chief Operating Officer (COO) to improve policies, procedures, and internal controls across both fiscal and federal program operations. In immediate response to concerns, federal reimbursements to the ASD were placed on hold in late December 2015 pending the completion of this review and improvement work. Additionally, the ASD's Chief Financial Officer resigned on December 18, 2015.

Beginning in January 2016, the department's COO has led a team of staff members (with federal programs and fiscal/audit expertise), in close coordination with the ASD's General Counsel/COO and leadership team, to review all of the current federal programs procedures for the ASD and its schools and take appropriate corrective actions. Revisions are being coordinated with the ASD district team, direct-run schools, and charter school operators to ensure appropriate understanding and documentation are in place. This work is further supported by the department's Office of Consolidated Planning and Monitoring (CPM) team to bolster understanding of federal regulations and cost principles. The COO's team is also reviewing internal fiscal procedures to improve controls for all funding sources. This work is further supported by the department's Chief Financial Officer and Office of Local Finance team. The ASD will move its financial transactions back into Edison, the state financial system of record, for fiscal year 2016-17. The ASD leadership and the department’s COO are developing this transition plan, including how ASD federal programs and fiscal teams will be staffed and overseen in the future. Additionally, the department’s CPM and fiscal teams will play more integral roles in the ASD’s federal programs and fiscal work and overall oversight to ensure fidelity of implementation.

The department COO’s support team and the ASD’s General Counsel/COO will address the identified questioned costs by removing the expenses from the grant source and/or identifying the appropriate documentation to be included with the reimbursement.

Finding Number	2015-011
CFDA Number	84.395
Program Name	State Fiscal Stabilization Fund (SFSF) – Race-To-The-Top Incentive Grants, Recovery Act
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S395A100032
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency, Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed – Significant Deficiency and Noncompliance Allowable Costs/Cost Principles – Material Weakness and Noncompliance
Questioned Costs	$88,139
Repeat Finding	N/A

The Department of Education reimbursed Race to the Top funds to the Achievement School District for costs that were unallowable or unsupported; furthermore, the Achievement School District lacked internal fiscal controls over Race to the Top program expenditures

Background

The State Fiscal Stabilization Fund – Race to The Top Incentive Grants, Recovery Act, program (Race to the Top) is a federal program designed to encourage and reward states and local educational agencies that create the conditions for

- education innovation and reform;
- achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates and ensuring student preparation for success in college careers; and
- implementing ambitious plans in four assurance areas.

The four assurance areas include 1) enhancing standards and assessments; 2) improving the collection and use of data; 3) increasing teacher effectiveness and achieving equity in teacher distribution; and 4) turning around struggling schools.

In 2010, the Tennessee Department of Education was awarded $500,741,220 in Race to the Top funds. The grant expired on July 27, 2014.

Created by Section 49-1-614, *Tennessee Code Annotated*, the department's Achievement School District (ASD) is a school district created for the purpose of taking over poorly performing schools. According to Section 49-1-614, ASD operates as a local educational agency to oversee persistently low-achieving schools for at least five years after they are removed from their current local educational agency. ASD, which was created as a direct result of the State of Tennessee receiving Race to the Top funds, began its first year of operation during the 2012 – 2013 school year.

For fiscal year 2015, ASD expended $4,801,400 in Race to the Top funds for payroll and non-payroll expenditures:

- For non-payroll items, ASD expended $208,498 from July 1, 2014, through July 27, 2014, the last day ASD could use Race to the Top funds for non-payroll expenditures.
- ASD received approval from the Tennessee Department of Education to use the Race to the Top grant to fund payroll expenditures for the period July 28, 2014, through June 30, 2015. Payroll expenditures for the fiscal year totaled $4,592,902.

Non-Payroll Expenditures

Condition and Cause

From a population of 187 non-payroll expenditures, totaling $208,498, we selected a nonstatistical, random sample of 60 expenditures, totaling $79,136, and reviewed supporting documentation to determine if the department staff spent grant funds in accordance with grant regulations. Based on the testwork performed, we found 11 of 60 non-payroll expenditures tested (18%) were unallowable or were unsupported, resulting in $3,656 in federal questioned costs. Specifically, we found that ASD expended Race to the Top funds on the following:

Expenditure Categories	Federal Questioned Cost
Unallowable and Unreasonable Non-Program Related Expenditures	$3,484
Unallowable Food Expenditure	31
Unsupported Expenditures	141
Total	**$3,656**

Based on our testwork, we found that ASD staff used Race to the Top funds to pay a fiscal agent to manage ASD's Bill & Melinda Gates Foundation grant (Gates Grant)[19]. According to the ASD Chief Financial Officer,[20] when the fiscal agent fee became due, funds from the Gates Grant were not available to pay for it; because Race to the Top was ASD's primary funding source, management charged this fee to the program. We believe, however, that the federal government should not bear the cost of managing a private grant; therefore, the cost of the federal agent fee is unallowable and should have been moved to the Gates Grant once this grant's funds became available.

We also found that ASD staff did not allocate the costs relating to a water cooler installation and the monthly water cooler fees to all federal grants when permissible but instead charged the entire cost to the Race to the Top grant, which was unreasonable. The ASD Chief Financial Officer

[19] The Gates Grant is a private grant that is used to develop and support schools and school systems that implement high quality and highly aligned systems to improve instruction (e.g., Common Core State Standards implementation, Feedback and Evaluation, and Teacher Development).

[20] The Achievement School District's Chief Financial Officer resigned effective December 18, 2015.

stated that ASD's other funding sources were also not available when the water cooler expenditures became due; therefore, these expenditures were generally charged to Race to the Top. Overall, ASD fiscal management felt they could use Race to the Top funds for any purpose they deemed necessary. Not only is Race to the Top ASD's primary funding source for fiscal year 2015, but ASD was created by a Race to the Top program. While administering a federal grant, however, ASD must still follow Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," as well as all other program guidance.

ASD also purchased food for a team meeting and charged the food costs to the grant; however, we believe the food related costs were not key to achieving the federal program's objectives and were therefore unallowable. The ASD Chief Financial Officer stated the food expenditure was removed from Race to the Top; however, we found that when ASD fiscal management attempted to remove the food cost, they incorrectly entered a journal entry into their accounting system and ultimately charged the same food expenditure to the Race to the Top program for the second time.

Finally, ASD could not provide invoices for two expenditure transactions; therefore, we could not determine if these expenditures met federal program requirements.

Criteria

- According to OMB Circular A-87, Attachment A, Part C, "To be allowable under Federal awards, costs must . . . [b]e necessary and reasonable for proper and efficient performance and administration of Federal awards . . . [and] [b]e adequately documented."
- OMB Circular A-87, Attachment B, Section 13.b, states that ". . . costs [for the improvement of working conditions, employer-employee relations, employee morale, and employee performance] will be equitably apportioned to all activities of the governmental unit."

Payroll Expenditures

Condition and Criteria

We tested all payroll transactions for the population of 62 ASD employees, totaling $4,592,902, whose payroll costs were charged to Race to the Top during fiscal year 2015 to determine if management complied with federal time and effort requirements prescribed in OMB Circular A-87.

We requested time and effort documentation, which includes either semi-annual certifications or Personnel Activity Reports (PARs), from ASD. Semi-annual certifications are completed when an employee works solely on a single cost objective. PARs are used by employees working under multiple cost objectives to make after-the-fact attestations about work performed under various funding sources, similar to a timesheet. The PAR is used by the accounting department to allocate an employee's salary to the various funding sources based on the percentage of time worked. Based on supporting documentation, 55 employees performed 100% of their work on Race to the Top activities, and 7 employees spent their time working on Race to the Top and other federal and non-federal activities.

Based on our testwork, we found the following:

- During fiscal year 2015, ASD did not have sufficient internal controls in place to ensure employees' payroll costs were correctly allocated to the appropriate federal and non-federal activities, based on their time and effort documentation. We compared the employees' time and effort documentation to the payroll expenditures in ASD's accounting system and found that 21 of 62 employees' payroll costs (34%) were not correctly allocated to their funding sources, including employees who spent 100% of their time on Race to the Top.
- For 7 of 62 employees tested (11%), ASD did not distribute payroll costs to Race to the Top in accordance with the employees' time and effort documentation. As a result, ASD overcharged Race to the Top $84,483, which represents federal questioned costs. According to the ASD Chief Financial Officer, "though internal controls must be bolstered to ensure payroll costs are completely and accurately recorded, the ASD believes that with the PARS appropriately reflecting both activity and time, these issues do not generate questioned costs." OMB Circular A-87 clearly states that distribution of employees' salaries or wages will be supported by a personnel activity report or equivalent documentation rather than having documents prepared to match the distributions that had already been made. Since ASD did not correctly distribute payroll expenditures based on appropriate time and effort documentation, the amounts will be questioned.
- For 13 of 62 employees tested whose payroll was fully or partially charged to Race to the Top during fiscal year 2015 (21%), ASD did not have semi-annual certifications on file at the time we requested them. After we made our request, the employees prepared their time and effort documentation, approximately 5 to 11 months after the pay period. ASD's Chief Financial Officer also stated that it was possible the documentation was in the employees' personnel file, but when ASD retrieved the documentation for our audit request, they were in a hurry and many employees' files were never checked. ASD's Chief Financial Officer explained that in the future, monthly reviews of documentation will be done during the month-end close procedures to ensure compliance with time and effort requirements, including verifying that allocations were made correctly.
- One employee did not sign 4 of 12 PARs after the end of the pay period, as required by OMB Circular A-87, but instead signed and dated the PARs before the pay period ended.
- After we informed ASD management that for four ASD employees' payroll expenditures were not allocated in accordance with their PARs, management instructed the employees to sign new and adjusted PARs to match the payroll allocations; however, we found that employees backdated the adjusted PARs to indicate that they signed the PARs in a timely manner. When we asked ASD

management about the backdated PARs, they stated that they had not paid strict attention to the dates the employees used.

In the 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report, the department identified the risk that costs charged to federal programs will not be adequately documented at the department level or the subrecipient level. The control activity management identified was to continue to stress the importance of maintaining adequate supporting documentation for expenditures and for the department to strengthen and improve its subrecipient monitoring. Based on the work that we performed, this control was not effective to prevent the payment of expenditures that were not adequately documented.

Criteria

- According to Principle 10.03 of the Government Accountability Office's *Standards for Internal Control in the Federal Government*, "management designs control activities to help ensure that all transactions are completely and accurately recorded. . . ."
- OMB Circular A-87, Attachment B, Section 8.h.(3) through (5), states

  > Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. . . . Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. . . . They must reflect an after-the-fact distribution of the actual activity of each employee, [and] they must account for the total activity for which each employee is compensated.

Effect

Without adequate procedures to ensure that the department's reimbursements to ASD are made based on proper supporting documentation, the department will continue to reimburse ASD for costs that are unallowable and unsupported.

Additionally, when time and effort is not properly charged in accordance with the documented activity of employees, management's noncompliance with federal requirements may result in federally determined disallowances and sanctions.

Recommendation

The Commissioner of the Department of Education should work with ASD's Superintendent and ASD fiscal staff to ensure that proper internal controls over federal expenditures are designed and implemented to ensure that ASD's expenditures are based on the program's objectives, are permitted under federal requirements, and are properly supported. ASD and the department should maintain and review supporting documentation (e.g., invoices, receipts, and time and effort documentation) for expenditures and review the journal entries in the general ledger at the end of each month.

In addition, management should evaluate the effectiveness of the control activities they have identified for these risks and should update the department's annual risk assessment to reflect any new controls management implements to mitigate these risks.

Management's Comment

We concur. Although Race to the Top is no longer an active federal program with no future risk of reimbursement for unallowable or unsupported costs, the department is taking action to improve internal controls over the reimbursement process for other federal programs in the Achievement School District (ASD). The ASD and other department divisions that support the ASD are currently undergoing internal review as directed by the department's Chief Operating Officer (COO) to improve policies, procedures, and internal controls across both fiscal and federal program operations. In immediate response to concerns, federal reimbursements to the ASD were placed on hold in late December 2015 pending the completion of this review and improvement work. Additionally, the ASD's Chief Financial Officer resigned on December 18, 2015.

Beginning in January 2016, the department's COO has led a team of staff members (with federal programs and fiscal/audit expertise), in close coordination with the ASD's General Counsel/COO and leadership team, to review all of the current federal programs procedures for the ASD and its schools and take appropriate corrective actions. Revisions are being coordinated with the ASD district team, direct-run schools, and charter school operators to ensure appropriate understanding and documentation are in place. This work is further supported by the department's Office of Consolidated Planning and Monitoring (CPM) team to bolster understanding of federal regulations and cost principles. The COO's team is also reviewing internal fiscal procedures to improve controls for all funding sources. This work is further supported by the department's Chief Financial Officer and Office of Local Finance team. The ASD will move its financial transactions back into Edison, the state financial system of record, for fiscal year 2016-17. The ASD leadership and the department's COO are developing this transition plan, including how ASD federal programs and fiscal teams will be staffed and overseen in the future. Additionally, the department's CPM and fiscal teams will play more integral roles in the ASD's federal programs and fiscal work and overall oversight to ensure fidelity of implementation.

The department COO's support team and the ASD's General Counsel/COO will address the identified questioned costs by removing the expenses from the grant source and/or identifying the appropriate documentation to be included with the reimbursement.

Finding Number	2015-012
CFDA Number	84.395
Program Name	State Fiscal Stabilization Fund (SFSF) – Race-To-The-Top Incentive Grants, Recovery Act
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S395A100032
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Period of Performance
Questioned Costs	$7,772
Repeat Finding	N/A

Race to the Top Incentive Grants program expenditures were obligated outside the period of performance

Background

The State Fiscal Stabilization Fund – Race To The Top Incentive Grants, Recovery Act program (Race to the Top) is a federal program that encourages and rewards states and local educational agencies that are creating conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates, and ensuring student preparation for success in college careers; and implementing ambitious plans in the four assurance areas. The four assurance areas are enhancing standards and assessments; improving the collection and use of data; increasing teacher effectiveness and achieving equity in teacher distribution; and turning around struggling schools.

Like most federal programs, federal funding for the Race to the Top program is only available to the department and its local educational agencies for a limited time. The Tennessee Department of Education received a grant notification from the U.S. Department of Education outlining the Race to the Top award amount and the period of performance (federal funding period). During fiscal year 2011, the department received a grant for $500,741,220 (award number S395A100032), which had a period of performance of July 28, 2010, through July 1, 2015. Local educational agencies that did not extend their grant deadline were required to obligate their funds by July 27, 2014, and liquidate the funds by October 27, 2014.

Edison Projects

When the department receives a new grant, staff members establish the grant in Edison, the state's accounting system, with corresponding project IDs. The project IDs identify the grant award year and help the department track the various activities authorized by the federal grant.

These grants are associated with speedcharts,[21] which contain the necessary fiscal information to ensure that the correct project ID is charged in Edison.

Reimbursement Request Process

The department awards Race to the Top funds to local educational agencies and then reimburses agencies for their expenditures. The agencies used a grants management system, the Federal Application Consolidated Tracking System, to submit reimbursement requests to the Tennessee Department of Education, which the department then paid.

Condition

We tested a population of 48 expenditures, totaling $955,284, charged to the Race to the Top program in fiscal year 2015 to determine if the transactions were obligated during the grant's period of performance. For 1 of 48 expenditures tested (2%), we found that this expenditure was a reimbursement to a local educational agency for an expenditure that was improperly obligated after the period of performance (grant closed on July 27, 2014), but was still charged to the grant. This payment totaled $7,772, which represents federal questioned costs.

Based on discussions with management, we found that no one at the department conducted a review of expenditures charged to federal grants after the period of performance ended to ensure the expenditures occurred within the period of performance.

Risk Assessment

Management addressed the risk of expenditures charged outside the period of performance to federal grants in their risk assessment. The 2014 Tennessee Department of Education Financial Integrity Act/Risk Assessment Report identified two risks related to period of performance:

- federal funds are not expended within time frames specified in the federal award; and
- the agency fails to seek reimbursement during the specified funding period.

Management listed training as the control activity; however, management's reliance on training did not prevent the payment of expenditures obligated outside the period of performance.

[21] Speedcharts are used in Edison for data entry. A speedchart number is entered instead of entering individual fields to properly account for transactions. The speedchart automatically pre-populates fields with the associated fiscal information to increase data entry efficiency and reduce keying errors.

Criteria

"Period of Availability of Funds,"[22] Title 34, *Code of Federal Regulations,* Section 80.23, states,

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Cause

According to the Executive Director of Operational Strategy, the process of paying local educational agency reimbursements does not include reviewing supporting documentation; however, when the agency submits a reimbursement, the agency's management attests that the expenditure obligations met the grant requirements. According to the local educational agency's Federal Programs Bookkeeper, she thought the agency had until September 30, 2014, to expend funds, even though the Executive Director of Operational Strategy reminded her on two occasions that the grant ended on July 27, 2014. The agency provided journal entries on December 1, 2015, that corrected the amounts that were outside the period of performance by moving the expenditures to a general purpose fund.

Effect

The department does not have proper internal controls in place to determine the timing of expenditure obligations related to local educational agencies' reimbursements so that expenditures are charged to the proper grant award, thus increasing the risk of the department expending federal funds outside the period of performance. This could result in refunds/reimbursements to the U.S. Department of Education for expenditures that were obligated and paid outside this time period.

Recommendation

The Commissioner should work with program staff to implement adequate procedures to ensure that reimbursements to local educational agencies following the end of the period of performance are for obligations that occurred within the period of performance. The department's annual risk assessment should be updated to reflect any new controls the department adds to the process for expending federal funds within timeframes specified in the federal award.

Management's Comment

We concur. For the expenditures cited as questioned cost, the local education agency moved the expenditures to a non-federal funding source. Other allowable expenses that occurred during the grant period of performance were identified and used to equitably offset the expenditures noted

[22] In the 2015 Office of Management and Budget (OMB) Circular A-133, "Compliance Supplement," the OMB changed the terminology "Period of Availability of [federal] funds" to "Period of Performance." The definition for either term did not change.

as questioned costs. The Race to the Top program is no longer an active program. Thus, there is no future risk that expenditures will be obligated outside the period of performance for this program.

Finding Number	2015-013
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-1505TN5MAP, 05-1405TN5MAP
Federal Award Year	2014 and 2015
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$2,401
Repeat Finding	N/A

TennCare paid a dental claim at an incorrect amount, resulting in total questioned costs of $3,695

Condition

We selected a sample of 66 fee-for-service claims reimbursed by TennCare during the audit period to determine the adequacy of documentation supporting the costs associated with these claims. We reviewed items such as medical records, service logs, office visit and procedure notes, and physician orders to determine if the claims were adequately supported. Of the 66 fee-for-service claims tested, 1 claim (1.5%) was overpaid by $3,695.

Criteria

According to Title 2, *Code of Federal Regulations,* Part 225C(1), Appendix A, "Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards . . . j. Be adequately documented."

Cause

TennCare's contracted Dental Benefits Manager did not process the claim at the correct amount. The Dental Benefits Manager has software that matches the claim amount to the authorization amount. The claim amount of $4,995 did not match the pre-authorization amount of $1,255. The claim was then flagged, and the utilization management team member accidently keyed the claim amount as $4,950, instead of the pre-authorization amount of $1,255. This resulted in the claim being paid at a higher amount than the pre-authorization amount.

Effect

The questioned costs for the fee-for-service reimbursement were $3,695 of a total of $1,980,167 tested. Federal questioned costs totaled $2,401. The remaining $1,294 were state matching funds. The total amount of the population sampled was $2,603,885,449. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for this condition.

Recommendation

TennCare should seek recovery of the overpayment and return the federal questioned costs to the Medicaid program.

Management's Comment

We concur. DentaQuest recouped the overpayment to the provider on October 21, 2015. TennCare subsequently denied the claim in question, and the claim was resubmitted as an adjustment in interChange to reflect the correct amount on October 27, 2015. The DentaQuest employee was also coached on fee overrides and the issues regarding this particular claim. Additionally, DentaQuest developed a policy and procedure to mitigate the risk of future overpayments.

The following additional controls are now in place to lower the risk associated with human error that can occur when the manual keying of a claim is necessary:

- Any fee overrides must be approved by the Client Services team in the Tennessee market.
- On a weekly basis, the Claims Team Leads as well as the Utilization Management Team Lead will review a new report that examines authorization amounts versus claims payments in the Tennessee market.
- Additional reporting has been created specifically for manual overrides for ongoing monitoring between Claims Processing, Client Services, and Utilization Management.

These additional steps assure that this situation will be avoided completely or discovered and corrected more timely.

Finding Number	2015-014
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-1505TN5MAP, 05-1405TN5MAP
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Health did not perform timely surveys of nursing facilities receiving TennCare payments

Background

To ensure intermediate care facilities and nursing facilities meet prescribed health and safety standards for Medicaid providers, the Division of Health Care Finance and Administration contracted with the Tennessee Department of Health to conduct surveys of these facilities that provide services to Medicaid recipients.

Condition

A performance audit report on the Tennessee Board for Licensing Health Care Facilities issued by the Comptroller of the Treasury, Division of State Audit, in November 2015 reported that the Department of Health's, Office of Health Care Facilities did not perform timely surveys of health care facilities. From a sample of 25 health care facilities surveyed during the period July 1, 2014, through December 31, 2014, 10 did not have the mandatory health and safety survey performed within the required 15 months of the previous survey.

Criteria

Section 1919(g)(2)(A)(iii)(I) of the Social Security Act states, "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey." In addition, Section 68-11-210, *Tennessee Code Annotated*, requires that all state-licensed health care facilities be inspected within 15 months of the last inspection.

Cause

The Department of Health's Office of Health Care Facilities does not have a computerized system to efficiently, effectively, and easily determine when each facility is due for its next regular survey. The Director of Health Care Facilities stated that information regarding when each facility was due for its regular survey was not always easily retrievable and that, in many cases, he relied on the department's information systems staff and surveyor staff to obtain this information. The information systems staff had to manually look up each facility to obtain the previous survey dates. This approach is a lengthy process and could result in data entry or other errors.

Centers for Medicare and Medicaid Services (CMS) does have a computerized system–the Scheduling and Tracking System (AST), which is an add-on to its Automated Survey Processing Environment (ASPEN) system–to assist in scheduling and monitoring facility inspections. Although not required by CMS, all states have access to AST to facilitate scheduling and monitoring of the regular survey process for both federal and state-licensed-only facilities, complaints, and enforcement cases. According to regional office management, the Office of Health Care Facilities has not implemented AST, although ASPEN is used to document survey work.

Per discussion with the Director of Health Care Facilities, staffing shortages have also impeded the performance of surveys.

Effect

If surveys are not conducted timely, health and safety violations may go undetected.

Recommendation

The Office of Health Care Facilities should take steps to ensure that surveys are conducted in a timely manner, as required by federal and state law. This includes filling surveyor vacancies and training staff as expeditiously as possible. The office should develop and implement a computerized tracking system to efficiently and effectively determine which health care facilities are due for regular surveys.

Management's Comment

We concur. For the period, July 1, 2014, through December 31, 2014, of the performance audit conducted by the Comptroller of the Treasury, Division of State Audit, and issued in November 2015, the Department of Health's Office of Health Care Facilities (HCF) did not perform timely surveys of nursing facilities receiving TennCare payments within the prescribed 15-month statutory requirement. As of July 30, 2015, the surveys of the nursing facilities receiving TennCare payments and all other long term care facility surveys have been resolved and brought within a range of 15 months from the previous survey.

It is important to note that HCF is responsible for ensuring the provision of safe, quality healthcare through the licensure and regulation of over 2,363 facilities and providers. The Office also serves as the federal certification survey entity for 1519 facilities. The nursing facilities receiving TennCare payments total 292, representing 12% of the total responsibility of the Office. While we are proud of the resolution of this finding and our ability to serve TennCare by bringing their surveys within the appropriate timeframe, it must not go without notice that the goal of HCF is to be in position to assure that all facilities are reviewed timely in order to ensure safe provision of healthcare in the State. As a result of increasing demands and expectations and the need of additional resources to meet these expectations, HCF is actively identifying and pursuing all appropriate measures designed to address currents needs, including a computerized tracking system, and working to resolve insufficiencies of the nature identified by the Comptroller.

Finding Number	2015-015
CFDA Number	10.557
Program Name	Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Agency	United States Department of Agriculture
State Agency	Department of Health
Grant/Contract No.	172636268
Federal Award Year	2015
Finding Type	Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

The Tennessee Department of Health did not monitor the required minimum number of clinics at one local metropolitan agency

Background and Criteria

The Department of Health (the department) operates the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which provides federal grants to states for supplemental foods, health care referrals, and nutrition education for low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, and to infants and children up to age five who are found to be at nutritional risk.

The Department of Health contracts with local agencies in metropolitan areas (subrecipients) to administer the WIC program by delivering services through agency-operated clinics to eligible participants within that metropolitan area. Because the department is the WIC program's pass-through entity, department management is responsible for monitoring the local agencies' activities to ensure that the agencies administer the program in accordance with federal requirements.

Tennessee has six local metropolitan agencies. The largest agency runs ten clinics, while the smallest runs one clinic. According to Title 7, *Code of Federal Regulations*, Part 246, Section 19(b)(3),

> The State agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater. The State agency may conduct such additional on-site reviews as the State agency determines to be necessary in the interest of the efficiency and effectiveness of the program.

Condition

We tested the department's monitoring efforts at all six local metropolitan agencies. For 1 agency tested (17%), we determined that management did not ensure that the department monitored at least 20% of the agency's clinics.

Hamilton County has six clinics. During the monitoring period July 1, 2013, through June 30, 2015, management monitored one clinic in Hamilton County, representing only 17% of the total clinics for the agency.

In addition, in the department's annual risk assessment, management identified the federal program risk that they would not monitor subrecipients of federal awards in accordance with the requirements of Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," as a low risk and did not implement any controls to mitigate the risk.

Cause

Management stated that the department used rounding to arrive at the 20% on-site review rate and did not believe that rounding resulted in noncompliance. To obtain clarity concerning the rounding issue, we contacted the U.S. Department of Agriculture (USDA). USDA federal personnel informed us that "there is no regulatory provision for rounding in this instance. To ensure compliance, we recommend that all WIC State agencies conduct the necessary number of on-site reviews to meet or exceed the 20% beginning fiscal year 2016."

Effect

As a pass-through entity for WIC, the department is responsible for ensuring subrecipients comply with federal program requirements. By not following all federal monitoring requirements, management cannot ensure that the local metropolitan agencies are operating the program in compliance with federal requirements.

Recommendation

The Commissioner should ensure that the appropriate department personnel monitor the minimum number of clinics as required by federal program requirements.

Management's Comment

We concur. It is the responsibility of the WIC State Agency (SA) to monitor/review the WIC Local Agencies (LA) once every two years. (In TN, the Health Regions comprise the WIC Local Agencies.) Additionally, within the LA, 20 percent of the clinics (counties) are to be monitored in addition to the LA. While 5 of 6 Local Agencies were correctly monitored for at least 20% of the clinics within the LA, one LA with 6 clinics was incorrectly monitored because of the calculation of the number of clinics to be: 6 clinics times 20% equaled 1.2 clinics or as described in the finding one clinic divided by 6 clinics equaled 17%. The Program incorrectly rounded the number of clinics from 1.2 clinics to one clinic. According to the finding the number of clinics that should have been monitored was two (2). Management should have ensured 2 of the 6 clinics were monitored. It should be noted that the one clinic monitored was efficiently and effectively managed. Management will ensure that for the future 20% of clinics or one clinic whichever is greater (7 CFR 246.19(b)(3)) will be monitored/reviewed.

A corrective action plan was prepared by Management (SA) for monitoring by the WIC Program which included training for SA monitoring staff. The training included clarification of determining the number of clinics to be monitored and a revision of the monitoring schedule for FFY 2016. The revised monitoring schedule includes the number of clinics in each LA to be monitored with the clinic locations identified on the schedule. The corrective action plan was completed on 12-10-2015.

Finding Number	2015-016
CFDA Number	10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Child and Adult Care Food Program Child Nutrition Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Disability Insurance/Social Security Insurance Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, H126A130063, H126A140063, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1205TN4004, G1305TN4004, G1405TN4004, G1505TN4004, 04-13-04TNDI00, 04-14-04TNDI00, and 04-15-04TNDI00
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency – Allowable Costs/Cost Principles (10.558 and 10.559) Material Weakness – Allowable Costs/Cost Principles (93.563) Material Weakness – Cash Management Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Cash Management
Questioned Costs	$49,306 (10.558) $83,448 (10.559) $2,019,337 (93.563)
Repeat Finding	N/A

The Department of Human Services' fiscal staff did not ensure program income and refunds were expended prior to requesting additional federal funds and also did not reduce costs by program income and refunds received, resulting in total federal questioned costs of $2,152,091

Background

The Department of Human Services (DHS) administers several federal programs at the state level. As the department incurs expenditures related to these programs, fiscal staff periodically request funds, called draw requests, from the federal grantors. Based on the nature of the federal award, meeting federal grant objectives can result in income generated as a direct result of the programs' operations. This generated income is known as program income.

In certain circumstances, DHS may recover funds it has previously expended from the grant. These recoveries of expenditures are identified as refunds to the program. Program income and refunds are generally used to offset the federal and state share of expenditures and should be used prior to requesting additional federal funds from the federal grantors.

Condition

For the Supplemental Nutrition Assistance Program (SNAP), the Child and Adult Care Food Program (CACFP), Child Support Enforcement (CSE), the Summer Food Service Program for Children (SFSP), Temporary Assistance for Needy Families (TANF), Disability Insurance/Social Security Insurance (SSDI), and Rehabilitation Services – Vocational Rehabilitation Grants to States (VR), we reviewed all 775 program income and refund cash receipts, totaling $1,138,846, that were

1. received during the period July 1, 2014, through June 30, 2015;
2. accounted for in revenue accounts in Edison, the state's accounting system; and
3. subject to the Office of Management and Budget's (OMB) "Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments" (Grants Management Common Rule).

See Table 1 for the breakdown of the total transactions and amounts for each federal program.

Table 1: Cash Receipts of Program Income and Refunds by Program

Program	Total Combined Receipts	Transactions
SNAP	$16,281	39
CACFP	138,452	109
CSE	25,988	85
SFSP	166,182	76
TANF	9,503	22
SSDI	3,835	37
VR	778,605	407
Total	**$1,138,846**	**775**

Source: Obtained from Edison.

Based on the problems we found in our program income and refund cash receipts testwork, we also expanded our testwork to review certain other cash receipt transactions accounted for in VR deferred revenue accounts, as well as CSE program income disbursements.

Program Income and Refund Cash Receipts Testwork

We noted that for 633 of the 775 receipts of program income and refunds tested (82%), totaling $873,564 for the 7 federal programs, DHS' Fiscal Directors and Accountants did not ensure that program income and refunds were expended prior to requesting additional federal funds. Specifically, we determined that

- for 576 of the 633 transactions, totaling $740,810, the program income and refunds were not expended before the department's fiscal staff requested additional federal funds. Staff expended the program income and refunds from 1 to 371 days (an average of 39 days) after the next request of federal funds.
- For the remaining 57 refunds, totaling $132,754, fiscal staff did not present us with evidence that DHS spent the refunds as of June 30, 2015. As of June 30, 2015, these refunds were still on hand and had been on hand from 4 to 328 days (an average of 165 days) after the next federal funds request.

See Table 2 and Table 3 below for additional details.

Table 2: Receipts (by Program) Expended After Fiscal Staff Requested Additional Federal Funds

Program	Number of Receipts	Amount
SNAP	37	$14,801
CACFP	74	89,146
CSE	69	22,792
SFSP	52	82,734
TANF	19	8,028
SSDI	35	3,786
VR	290	519,523
Totals	**576**	**$740,810**

Source: Obtained from Edison.

Table 3: Total Receipts (by Program) Not Expended as of June 30, 2015

Program	Number of Refunds	Amount of Refunds
CACFP	33	$49,306
SFSP	24	83,448
Total	**57**	**$132,754**

Source: Obtained from Edison.

Expanded Testwork

Rehabilitation Services – Vocational Rehabilitation Grants to States

While completing expanded testwork, we also discovered that DHS' Fiscal Directors and Accountants did not ensure that an additional $2,780,871 in VR program income was expended or used prior to requesting more funds. Specifically, we noted that DHS fiscal staff improperly recorded VR program income receipts totaling $2,780,871 from the Social Security Administration into a deferred revenue account at June 30, 2014, instead of a revenue account used to recognize federal and state program income. Because staff recorded funds in the deferred revenue account, the Fiscal Director did not ensure that the program income receipts were expended prior to requesting additional funds from the federal government.

Throughout state fiscal year 2015, DHS eventually transferred these program income receipts out of the deferred revenue account and into an actual revenue account; however, fiscal staff continued to request VR funds without expending the program income that had been incorrectly recorded in the deferred revenue account. Based on our review of accounting records, DHS fiscal staff posted an accounting entry on April 8, 2015, transferring the remaining $1,520,838 in the deferred revenue account into revenue accounts used to recognize federal and state program income. DHS staff properly reduced the next federal funds request on April 15, 2015, by the transfer amount. (For additional information regarding VR program income improperly recorded in deferred revenue accounts, see 2015-040.)

Child Support Enforcement

We determined that some CSE program income transactions were based on adjusting journal entries instead of cash receipt transactions; therefore, we reviewed all CSE program income transactions recorded based on adjusting journal entries for the fiscal year ended June 30, 2015. Our review disclosed that DHS' Fiscal Directors and Accountants did not ensure that CSE program income totaling $8,048,970 was disbursed prior to requesting additional federal funds.

Specifically, we found that for eight program income transactions totaling $6,029,182, the program income was not expended before the department's fiscal staff requested additional federal funds. Staff expended the program income from 59 to 122 days (an average of 92 days) after the next request of federal funds. For one of the program income transactions totaling $2,019,788 in federal program income, staff did not provide evidence that the department spent all of the program income as of June 30, 2015.

For CSE, the federal share of program income is used to reduce the federal share of program expenditures. When the federal share of expenditures is reduced in Edison, the system generally reduces the amount of federal funds requested. We found that while DHS fiscal staff recorded an accounting entry on October 9, 2014, in Edison to reduce federal expenditures by $2,019,788, Edison billing records showed that federal funds requests were only reduced by $451. The $451 was not disbursed until 455 days after fiscal staff made the next federal funds request. As of June 30, 2015, the remaining $2,019,337 was still on hand and had been on hand for 628 days after fiscal staff made the next federal funds request.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed DHS' November 2014 Financial Integrity Act Risk Assessment. We determined management did not include in the department's annual risk assessment the risk that refunds would not be disbursed prior to additional draw requests of federal grant funds. In addition, management identified the likelihood that program income would not be disbursed before fiscal staff requested additional federal cash draws as remote and the associated impact as low; however, we determined that the likelihood and impact of occurrence for this risk should have been assessed as high and moderate, respectively. As noted above, 82% of program income and refund cash receipts we tested were not disbursed timely, and the noncompliance affected all audited programs to which the requirement was applicable. Further, material noncompliance with cash management requirements is generally expected to have a direct and material effect on federal programs.

Criteria

According to paragraph 21(f) of the Grants Management Common Rule,[23] grantees and subgrantees are required to disburse program income, rebates, refunds, contract settlements, audit recoveries and interest earned on such funds before requesting additional cash payments.

OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," Attachment A, Section C.1.i, states that to be allowable under federal awards, costs must be net of all applicable credits. Applicable credits refer to those receipts or reduction of expenditure type transactions that offset or reduce costs that are allocated to federal awards, including refunds and program income required to be used to reduce federal expenditures.

Based on Title 45, *Code of Federal Regulations*, Part 304, Section 50(b), DHS must exclude from its quarterly expenditure claims an amount equal to all interest and other income earned during the quarter resulting from CSE services the department provides.

Cause

Upon discussion with one of the Accountants, we learned that the cash receipt system (iNovah) and Edison interface through a batch process that occurs daily, which contributed to the delays identified above. In addition, DHS staff must complete approval processes before receipts are recognized as revenue and drawdown procedures are completed, resulting in further delays to spend/use those receipts before making the next request for federal funds.

We additionally noted that DHS employs a practice of recording cash receipts for VR in deferred revenue accounts, even though these amounts do not represent deferrals or unearned revenue under generally accepted accounting principles. This practice of recording receipts of program income initially in deferred revenue accounts and periodically transferring funds from deferred

[23] The Grants Management Common Rule was codified for the United States Department of Agriculture, United States Department of Health and Human Services, the Social Security Administration, and the United States Department of Education at Title 7, *Code of Federal Regulations* (CFR), Part 3016; 45 CFR 92; 20 CFR 437; and 34 CFR 80, respectively.

revenue accounts to actual revenue accounts delays the proper use of program income and refunds.

Effect

Failure to disburse refunds and program income prior to requesting additional federal funds results in transfers of funds between the federal government and the state in violation of federal regulations. In addition, the state may earn interest (to which it is not entitled) on federal funds drawn prior to the appropriate offset of program income/refund expenditures.

Questioned Costs

Since OMB A-87 requires costs to be net of all applicable credits to be allowable, we questioned costs of $2,019,337 – CSE; $49,306 – CACFP; and $83,448 – SFSP due to the department's failure to reduce costs by the amount of program income and refunds received as of June 30, 2015. Total questioned costs are $2,152,091. We did not question the other costs mentioned in the finding because the funds were expended or used before the end of fiscal year 2015.

OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

- The Department of Human Services' Commissioner and Director of Operations – Fiscal and Budget should ensure that program income and refunds are promptly used for allowable purposes upon receipt.
- Management should also ensure that program income from the Social Security Administration for VR is properly recognized as revenue upon receipt.
- Finally, in the department's annual risk assessment, management should include the risk associated with staff failing to ensure that refunds and program income are disburse refunds before fiscal staff draw additional federal funds, and management should properly assess the likelihood and impact of the risk that program income is not disbursed before requesting fiscal staff request additional federal cash draws. The risk assessment should classify the risks based on impact and likelihood based on current circumstances, and management should identify and implement the mitigating controls associated with these risks.

Management's Comment

We concur in part.

The Department agrees that federal funds were requested prior to expending program income and refunds. We do not agree with the total amount of question costs. It is important to note that, while the timing of expenditures was out of sequence, funds were expended for allowable program costs. The Department of Finance and Administration (DF&A), in partnership with the

Department of Human Services (DHS), is strengthening internal controls over cash management. Fiscal staff members have been retrained on Edison processes to ensure that program income is expended prior to requesting additional federal funds. The DF&A and DHS are also in the process of researching the refund component of this finding and will address accordingly. It should also be noted, typically, refunds related to the Child Nutrition Programs are returned to the U.S. Department of Agriculture (USDA) via check as part of the grants close out process. They are not expended by DHS prior to requesting additional funds. The refund to USDA is being processed at this time.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time, the Department has either identified or learned of historical problematic practices that are not readily identifiable and addressed them accordingly and will continue to do so.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. For costs to be allowable for the Vocational Rehabilitation program, federal cost principles require the expenditures to be net of all applicable credits. Because DHS management did not reduce expenditures by the amount of program income and refunds received, we questioned the costs.

Finding Number	2015-017
CFDA Number	10.551, 10.561, 10.559, 10.560, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Child Nutrition Cluster State Administrative Expenses for Child Nutrition Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Social Services Block Grant Medicaid Cluster Disability Insurance/Social Security Insurance Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	H126A130063, H126A140063, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1205TN4004, G1305TN4004, G1405TN4004, G1505TN4004, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G1501TNCCDF, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, G1501TNSOSR, 05-1405TN5MAP, 05-1505TN5MAP, 04-13-04TNDI00, 04-14-04TNDI00, and 04-15-04TNDI00
Federal Award Year	2011 through 2015
Finding Type	Material Weakness – Cash Management (10.551, 10.561, and 93.558) Significant Deficiency – Allowable Costs/ Cost Principles (10.559, 84.126, 93.563, 93.575, 93.596, 93.778, and 96.001) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Cash Management
Questioned Costs	$171 (10.559) $686 (10.560) $114,534 (10.561) $475,315 (93.558) $549,675 (93.778)
Repeat Finding	N/A

The Department of Human Services did not comply with cash management requirements or allocate costs to programs in accordance with its approved cost allocation plan, resulting in federal questioned costs of $1,140,381

Background

The Department of Human Services is responsible for adequate cash management for all of its federal programs. In the cash management process, a state either receives cash advances or cash reimbursements from the federal awarding agencies that oversee federal grant programs. For those programs that operate on a cash reimbursement basis, the state incurs program expenditures first and then requests federal funds to offset state spending under these programs. The request for and receipt of federal funds is called a federal cash drawdown. The department operates all of its programs on a cash reimbursement basis. Programs may be 100% federally funded or funded with a combination of state and federal funds.

The Treasury-State Agreement (TSA) between the U.S. Department of the Treasury and the State of Tennessee establishes the methods and timing used to draw down funds from the federal government for the federal programs with large amounts of expenditures that the state administers. For federal programs with smaller amounts of expenditures, federal-state transfers are governed by Title 31, *Code of Federal Regulations*, Part 205, Subpart B.

One of the funding techniques the TSA requires the department to use to draw down federal funds is known as "Cost Allocation – Actual Costs – Estimated Allocation (Modified)" (Cost Allocation). This technique requires the department to use allocation percentages from the prior period to calculate an estimate of how current costs should be allocated to the programs. Each quarter, the department's fiscal staff are required to reconcile the estimates based on the actual allocation percentages and to make any necessary adjustments to ensure costs charged to the programs reflect actual allocation percentages. For example, if the employees in a specific division within the department worked 20% of their time on Supplemental Nutrition Assistance Program (SNAP) administrative activities during April, 20% of the May payroll for these employees would originally be charged to SNAP. Then, once the actual time spent on each program during May is determined based on a statistical analysis, the department would adjust the May estimates to reflect the actual time spent on programs during May.

Condition

We selected a random, nonstatistical sample of 72 expenditure transactions, totaling $130,484, from a population of 2,545,315 transactions, totaling $549,803,687, for Child and Adult Care Food Program (CACFP), Child Care and Development Fund Cluster (CCDF), Child Support Enforcement (CSE), Summer Food Service Program for Children (SFSP), Supplemental Nutrition Assistance Program (SNAP), Social Services Block Grant (SSBG), Disability Insurance/Social Security Insurance (SSDI), Temporary Assistance for Needy Families (TANF), and Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) programs for the audit period July 1, 2014, through June 30, 2015. See Table 1 for the breakdown of the total transactions and amounts for each federal program. Due to the extent of the issues noted related to TANF and SNAP, we expanded our review to include an additional 743,341 SNAP and

732,032 TANF administrative personnel costs (salaries and benefits) totaling $77,846,138 and $18,737,398, respectively, for the eight departmental divisions represented in the sample.

Table 1
Federal Share of Expenditures by Program

Program	Expenditures	Transactions
CACFP	$66,035,382	15,775
CCDF	120,289,818	469,746
CSE	45,918,509	115,543
SFSP	12,341,128	6,504
SNAP	73,621,507	559,973
SSBG	10,279,801	110,159
SSDI	56,816,761	497,002
TANF	107,288,599	540,863
VR	57,212,182	229,750
Total	**$549,803,687**	**2,545,315**

Source: Obtained from Edison, the state's accounting system.

Based on the testwork performed, we found that the department's fiscal staff did not ensure federal funds were drawn down in accordance with the funding technique specified in the TSA or Subpart B. Specifically, we noted that the fiscal staff did not always

- use the prior period's allocation percentages to calculate the amount of federal funds drawn down (Condition A);
- adjust estimated allocations using actual allocation percentages (Condition B);
- adjust drawdowns timely (Condition C);
- adjust drawdowns according to the approved cost allocation tables (Condition D); and
- make cost allocation adjusting entries (Condition E).

<u>**Condition A**. Prior Period Allocations Were Not Used to Calculate the Amount of Federal Drawdowns</u>

Based on our testwork, we noted that the department's fiscal staff did not ensure that federal cash drawdowns were in compliance with the applicable funding techniques specified in the TSA or Subpart B procedures. For 15 of 16 TANF (94%) and all 8 SNAP expenditure transactions tested in the sample for which the Cost Allocation funding technique applied, as well as for the 8 divisions we tested based on our expanded review, we found that fiscal staff did not use the prior period's actual allocation percentages to calculate the amount of federal funds to be drawn down. Even though cost allocation tables using actual allocation percentages were prepared monthly, fiscal staff used the same (and thus incorrect) allocation percentages for months at a time. In some instances, the allocation percentages used were not updated for the entire audit period. Because the allocation percentages that fiscal staff used did not agree with the prior periods' allocation percentages that we reviewed, we were unable to determine the method fiscal staff used to calculate the allocation percentages.

We recalculated the estimated amounts that should have been charged to each federal program using the prior periods' allocation percentages. For one division in our expanded review, we could not determine the impact that department staff using incorrect allocation percentages had on federal programs, because the department did not measure time and activity distributions and allocate charges for employees in accordance with the approved cost allocation plan and Office of Management and Budget (OMB) Circular A-87. Personnel costs for the employees were automatically distributed 81% to TANF and 19% to CCDF, but department staff failed to prepare personnel activity reports or equivalent documentation to support the employees' payroll costs (see finding 2015-018 for additional information). For the other seven divisions, the impact of using the incorrect allocation percentages for the federal programs audited as major programs is presented in Table 2 below.

Table 2
Impact of Incorrect Prior Period Allocation Percentages

Programs	Total Differences in Expenditures*	Federal Share Percentage for All Expenditures Reviewed**	Impact on Federal Draw***
CSE	$ 9,144	60%	$ 5,486
SSDI	(54,227)	100%	(54,227)
SNAP	(5,048,393)	50%	(2,524,197)
SSBG	(21,456)	100%	(21,456)
TANF	2,768,774	45%	1,245,948
MAP[24]	2,088,532	50%	1,044,266
VR	$ 8,467	79%	6,689
		Total	**$ (297,491)**

Source: Obtained from Edison, the state's accounting system.
*This amount represents the difference between the estimated amounts that we calculated using prior period allocation percentages and the estimated amounts the department calculated. These expenditure amounts include the federal and non-federal shares of expenditures.
**This percentage represents the percentage of program expenditures that are funded using federal funds.
***This amount represents the impact of staff using incorrect prior period allocation percentages on the drawdown of federal funds during the audit period. Positive amounts indicate that too much was charged to the program, and negative amounts indicate that too little was charged to the program.

Condition B. Failure to Adjust Drawdowns Using Actual Allocation Percentages

Although the TSA requires the state to adjust estimated drawdowns quarterly based on the approved cost allocation plan, the department's general practice was to adjust the estimates to the actual cost allocation monthly once the Statistical Analyst prepared the cost allocation tables. In order to determine whether federal drawdowns based on estimates were adjusted timely once the

[24] MAP, Medical Assistance Program (Medicaid), is a component of the Medicaid Cluster.

actual allocation percentages were determined, we reviewed the monthly adjusting journal entries for the months represented in our sample of expenditure transactions.

Based on our testwork, we found that the department's fiscal staff did not adjust estimated allocations to reflect actual allocation percentages for 5 of 15 TANF (33%) and 4 of 8 SNAP (50%) sample expenditure transactions tested for which the Cost Allocation funding technique applied, along with 5 of 8 divisions we tested based on our expanded review. Specifically, for 3 divisions, the fiscal staff did not perform cost allocation adjustments for the entire audit period. For the other 2 divisions, fiscal staff did not perform cost allocation adjustments for the period July 1, 2014, through December 31, 2014.

As noted above in Condition A, for one of the five divisions, the department did not measure time and activity distributions and allocate charges for employees in accordance with the approved cost allocation plan and OMB Circular A-87; therefore, we could not determine the impact of the adjustment errors on federal programs. See Table 3 for the impact related to the other four divisions. We questioned the amounts overcharged to the programs.

Table 3
Overcharges and Undercharges to Major Federal Programs As a Result of Staff's Failure to Adjust Estimated Allocation Percentages to Actual Percentages

Overcharged			
Program	*Federal Share*	*State Share*	*Total*
CCDF	$ -	$ 372,925	$ 372,925
TANF	506,882	619,523	1,126,405
MAP	504,984	504,983	1,009,967
Total	**$ 1,011,866**	**$ 1,497,431**	**$ 2,509,297**
Undercharged			
Program	*Federal Share*	*State Share*	*Total*
CSE	$ (3,518)	$ (2,345)	$ (5,863)
SNAP	(1,249,786)	(1,249,786)	(2,499,572)
SSBG	(2,230)	-	(2,230)
VR	(7)	(2)	(9)
Total	**$(1,255,541)**	**$(1,252,133)**	**$ (2,507,674)**

Source: Obtained from Edison, the state's accounting system.

<u>**Condition C**. Failure to Adjust Drawdowns Timely</u>

Based on our sample testwork, we found that for 6 of 15 TANF expenditures (40%) and 3 of 8 SNAP expenditures (38%) tested for which the Cost Allocation funding technique applied, accountants did not adjust estimated allocations timely. The accountants performed the cost allocation adjustments for these expenditures between 4 and 96 days (average of 28 days) after the last day of the month following the end of the quarters in which the expenditures were incurred.

Condition D. <u>Failure to Adjust Drawdowns Based on the Approved Cost Allocation Plan and Failure to Amend the Plan Timely</u>

Cost allocation tables define the allocation method staff use to assign costs to different cost objectives, including federal programs. We found that for 1 of 15 TANF sample expenditures tested (7%) for which the Cost Allocation funding technique applied, the accountant used the incorrect cost allocation table (based on the approved cost allocation plan) to allocate state office rent costs. The accountant used table CR-3, which is used to allocate statewide county office costs, instead of table CR-1, which is used to allocate state office rent.

We could not determine the impact on the federal programs or the amount of federal questioned costs, because staff had not updated cost allocation table CR-1 to reflect the department's current operations; therefore, table CR-1 could not be used for a valid allocation of costs.

Condition E. <u>Failure to Make Cost Allocation Adjusting Entries</u>

Based on our review of the cost allocation process, we found that an accountant failed to make quarterly adjusting entries to allocate costs to multiple programs. Specifically, the accountant did not make adjusting entries for the Family Assistance division (allotment code 345.30) and the Appeals and Hearing division (allotment code 345.31). The failure of the accountant to make the adjusting entries affected how costs were allocated for the audit period. We reviewed the cost allocation process for the months of November 2014 and April 2015, and we evaluated the impact the accountant's failure to make the adjusting entries had on federal programs for the two months we reviewed. See Table 4 and Table 5 below for the amounts overcharged or undercharged to the programs. We questioned amounts overcharged to the various programs totaling $763,332.

Table 4
Impact of No Adjusting Entry for November 2014 on Programs

Overcharged				
Program (Divisions)	*Allotment Code*	*Federal Share*	*State Share*	*Total*
CCDF	345.30	$ -	$ 58,355	$ 58,355
SFSP	345.30	172	-	172
SNAP EBT	345.30	26,744	26,744	53,488
SNAP CERT	345.31	71,967	72,038	144,005
TANF	345.30	66,151	198,454	264,605
TANF	345.31	3,454	10,354	13,808
MAP	345.30	98,283	98,283	196,566
SAE	345.30	686	-	686
	Total Overcharged	**$ 267,457**	**$ 464,228**	**$ 731,685**
Undercharged				
CCDF	345.31	$ -	$ (537)	$ (537)
CSE	345.31	(75,871)	(47,754)	(123,625)
CSE	345.30	(5,380)	(2,771)	(8,151)
SFSP	345.31	(537)	-	($537)

SNAP CERT	345.30	(280,051)	(280,051)	(560,102)
SSBG	345.30	(2,835)	-	(2,835)
TANF CONTPYMT	345.30	(2,985)	(8,954)	(11,939)
MAP	345.31	-	(30,967)	(30,967)
SAE[25]	345.31	(2,147)	-	(2,147)
Total Undercharged		**$(369,806)**	**$ (371,034)**	**$(740,840)**

Source: Obtained from Edison, the state's accounting system.

Table 5
Impact of No Adjusting Entry for April 2015 on Programs

Program (Divisions)	*Allotment Code*	*Federal Share*	*State Share*	*Total*
Overcharged				
SNAP CERT	345.31	$ 15,824	$ 15,824	$ 31,648
Undercharged				
CCDF	345.31	-	(498)	(498)
CSE	345.31	(1,929)	(993)	(2,922)
SFSP	345.31	(1,073)	-	(1,073)
TANF	345.31	(6,443)	(19,329)	(25,772)
VR	345.31	(736)	(196)	(932)
MAP	345.31	-	(260)	(260)
SAE	345.31	(191)	-	(191)
Total Undercharged		**$ (10,372)**	**$ (21,276)**	**$ (31,648)**

Source: Obtained from Edison, the state's accounting system.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. We determined management did not ensure that the department's annual risk assessment included the mitigating controls associated with ensuring that federal cash drawdowns are in accordance with the Treasury-State Agreement (TSA).

Criteria

For the Cost Allocation funding technique, Section 6.2.4 of the TSA states,

> The [daily draw] request shall be equal to an estimated allocation based on actual daily costs, distributed in accordance with allocation statistics of the prior period. At the end of each quarter, the State shall adjust estimated drawdowns to the actual allocation based on the approved cost allocation plan.

OMB Circular A-87, Attachment B, Paragraph 8.h, states, in part,

> (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or

[25] **SAE-**State Administrative Expenditures for Child Nutrition

> equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 430(i)(1)(i), states that charges to federal awards for salaries and wages must be based on records that are supported by a system of internal control, which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

According to Title 45, CFR, Part 95, Section 517(a), "a State must claim FFP [federal financial participation] for costs associated with a program only in accordance with its approved cost allocation plan."

Based on our review of the approved cost allocation plan, effective July 1, 2014, cost allocation table CR-1 should have been used for expenditures coded to state office rent.

According to Title 45, CFR, Part 95, Section 509(a), the state should promptly amend the cost allocation plan and submit the amended plan to the Director of the Division of Cost Allocation if, among other circumstances, the procedures shown in the existing cost allocation plan become outdated. The procedures could become outdated because of organizational changes that affect the validity of the approved cost allocation procedures, or because of changes that make the allocation basis or procedures in the approval cost allocation plan invalid.

<u>Cause</u>

Expenditures are automatically allocated in the state's accounting system, Edison, based on codes called speedchart numbers. When an expenditure is assigned a speedchart number, the total expenditure cost is allocated among various programs in accordance with preset percentages. To ensure that costs are allocated in accordance with the prior period's allocation percentages, the percentages assigned to speedchart numbers need to be updated each period. Based on our review of the department's speedchart information, speedcharts are not updated regularly.

Based on discussion with an accountant responsible for performing cost allocation adjustments, the accountant thought he had performed all required adjustments, but he had accidentally failed to do so.

Even after discussions with the department's fiscal and budget management and specific questions about employees responsible for cost allocation, management could not identify any employees responsible for comparing cost allocation adjustments to the cost allocation plan to ensure that allocations were performed in accordance with the plan and the TSA.

Based on a discussion with the Statistical Analyst, using speedcharts to support personnel costs for employees working on multiple cost objectives is a method that is included in the department's approved cost allocation plan; however, we identified no evidence to support this assertion. The Statistical Analyst also stated that an amendment was not needed for the cost allocation plan, because the Quality Control Unit works solely on SNAP activities. We could not identify an exception permitting the department to avoid amending a cost allocation plan in instances where employees move from working on multiple cost objectives to working on a single cost objective.

Effect

Failure to draw down federal funds in accordance with the TSA results in inefficient federal-state transfers and could result in the accrual of interest liabilities for the state due to noncompliance with the TSA. Failure to update the cost allocation plan promptly and to track time and effort for employees working on multiple cost objectives increases the risk that federal programs and other cost objectives will fail to be assigned an appropriate share of costs.

Questioned Costs

We questioned $2,882,187 due to the failure to adjust drawdowns using actual allocation percentages and the failure to make cost allocation adjusting entries. See the tables below for additional details.

Table 6
Questioned Costs by Condition, Including Adjustment

Condition Subtitle	Questioned Costs
Failure to adjust drawdowns using actual allocation percentages (Condition B)	$2,509,297
Failure to make cost allocation adjusting entries (Condition E)	763,332
Adjustment	
Less questioned costs included in both conditions	(390,441.88)
Total Questioned Costs	**$2,882,187**

Source: Obtained from Edison, the state's accounting system.

Table 7
Total Questioned Costs, by Program

Overcharged Programs			
Program	*Federal Share*	*State Share*	*Total*
CCDF	$ 0	$ 372,850	$ 372,850
SFSP	171	0	171
SNAP	114,534	114,606	229,140
TANF	475,315	704,675	1,179,990
MAP	549,675	549,675	1,099,350
SAE	686	0	686
Total	$1,140,381	$1,741,806	$2,882,187

Source: Obtained from Edison, the state's accounting system.

This finding, in conjunction with findings 2015-016, 2015-018, 2015-019, 2015-20, 2015-30, 2015-031, and 2015-033 (which also included federal questioned costs for the federal compliance requirement Allowable Costs/Cost Principles), results in total known federal questioned costs exceeding $10,000 for a type of compliance requirement for a federal program.

OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner of the Department of Human Services and the department's Deputy Commissioner of Finance and Administration should assign staff to be responsible for verifying compliance with the cost allocation plan and should ensure that accountants adjust the estimated drawdowns quarterly in accordance with the TSA. In addition, the Commissioner and Deputy Commissioner should ensure that employee time and effort is tracked in accordance with applicable regulations and that estimated allocations are revised to reflect the results of the most recent allocation percentages. Finally, management should ensure that its annual risk assessment identifies the mitigating controls designed to ensure compliance with the TSA and the uniform guidance pertaining to proper documentation of personnel expenses.

Management's Comment

We concur in part.

The Department does not agree with the questioned costs. All expenditures made were for allowable program costs and activities. It should be noted that the Department identified the need to improve the cost allocation process prior to the State Audit finding.

The Department agrees that certain cost allocation adjustments were not made in a timely manner. The Department is in the process of implementing an automated cost allocation system. As part of this process, the Department is evaluating all cost allocations and internal control processes involving cost allocation. The Department will work with the Department of Finance and Administration to ensure that future Treasury State Agreement methodologies are aligned with the new cost allocation system and meet federal requirements.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so. This item that was first identified by the Department is an example of the focus on solutions.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of

federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. We questioned the costs in this finding because management charged expenditures to the wrong federal programs, which is a violation of federal requirements and is not allowable.

Finding Number	2015-018
CFDA Number	10.551, 10.561, 10.559, 10.560, 84.126, 84.224, 93.558, 93.563, 93.575, 93.596, 93.667, and 93.778
Program Name	Supplemental Nutrition Assistance Program Cluster Child Nutrition Cluster State Administrative Expenses for Child Nutrition Rehabilitation Services -Vocational Rehabilitation Grants to States Assistive Technology Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Social Services Block Grant Medicaid Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 2010IN253345, 2011IN253345, 2012IN253345, 2013IN253345, 2014IN253345, 2015IN253345, H126A130063, H126A140063, H224A140042, H224A150042, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1205TN4004, G1305TN4004, G1405TN4004, G1505TN4004, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G1501TNCCDF, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, G1501TNSOSR, 05-1405TN5MAP, and 05-1505TN5MAP
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency – Activities Allowed or Unallowed (93.563) Significant Deficiency – Allowable Costs/Cost Principles (10.551, 10.561, 10.559, 84.126, 93.558, 93.563, 93.575, 93.596, 96.667, 93.778) Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$15,254 (10.559) $500,985 (10.560) $22,581 (10.561) $54,609 (84.126) $69,336 (84.224) $28,123 (93.558) $32,846 (93.563) $74,149 (93.667) $62,893 (93.778)
Repeat Finding	N/A

<u>The Department of Human Services did not ensure that personnel costs charged to federal grants were supported by adequate documentation, resulting in federal questioned costs of $860,776</u>

<u>Background</u>

Federal regulations require the Department of Human Services (DHS) to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate all costs to all programs administered by DHS. The method DHS uses to allocate personnel costs to programs varies depending on whether the personnel costs are identified as direct costs or indirect costs in DHS' approved cost allocation plan, *Cost Allocation Plan for the TN Department of Human Services*, effective July 1, 2014.

Direct costs are costs that can be identified specifically with a particular final cost objective (a cost objective is a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred). Indirect costs are costs that are incurred for a common or joint purpose benefiting more than one cost objective and that are not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Federal regulations generally establish detailed documentation requirements for personnel costs charged to federal programs as direct costs.

Specifically, Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes standards for documenting employee time and effort when personnel expenditures are charged to federal awards as direct costs. Employees who work solely on one federal award (single cost objective employees) must prepare certifications that meet federal requirements and must prepare these certifications at least semi-annually. Employees who work on a federal award and on other federal or state awards and activities (multiple cost objective employees) must prepare personnel activity reports (or equivalent documentation) that meet certain requirements and must prepare this documentation at least monthly, unless a substitute method is approved by the cognizant federal agency.

While most of the federal programs administered by DHS were subject to OMB Circular A-87 during the audit period, July 1, 2014, through June 30, 2015, the Social Services Block Grant (SSBG) and the Child Care and Development Fund (CCDF) were not. For these two federal programs, specific federal documentation requirements for personnel costs have not been established. Instead, federal regulations require fiscal control and accounting procedures for these programs to be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of program requirements.

To determine whether the personnel costs were adequately supported and fiscal control procedures for personnel costs were sufficient, we selected a sample of 72 personnel cost expenditures, totaling $8,703, from the population of personnel cost expenditures totaling $228,114,909 that DHS incurred during the audit period and charged to the federal programs listed in Table 1.

Table 1: Personnel Expenditures for Major Programs Under Audit		
Program	**Total Transactions**	**Total Expenditures**
Child and Adult Care Food Program (CACFP)	3,283	$721,086
Child Care and Development Fund Cluster (CCDF)	391,890	19,060,883
Child Support Enforcement (CSE)	193,916	12,982,095
Summer Food Service Program for Children (SFSP)	4,472	199,193
Supplemental Nutrition Assistance Program (SNAP)	972,463	113,287,144
Social Services Block Grant (SSBG)	67,479	5,680,536
Disability Insurance/Social Security Insurance (SSDI)	111,372	25,565,404
Temporary Assistance for Needy Families (TANF)	953,950	22,254,547
Rehabilitation Services – Vocational Rehabilitation Grants to States (VR)	273,017	28,364,021
Grand Total	**2,971,842**	**$228,114,909**

Source: Summarized using information from Edison, the state's accounting system.

Summary of Condition

Based on testwork performed, we found that DHS Deputy Commissioner of Finance and Administration (Deputy) did not ensure that fiscal control procedures for CCDF and SSBG were sufficient to demonstrate that federal funds were used appropriately and personnel costs charged to the other federal awards were supported by adequate documentation (condition A). The Deputy also did not ensure charges to the Child Support Enforcement (CSE) program were for allowable activities (condition B), resulting in total questioned costs of $1,022,635. Federal questioned costs were $860,776; the remaining $161,859 were state matching funds.

Condition A. Personnel Costs Were Not Supported by Adequate Documentation, and Fiscal Control Procedures for CCDF and SSBG Were Insufficient

Original Testwork

Based on our sample testwork, the Deputy did not ensure that personnel costs charged to federal awards were supported by adequate documentation for 2 of 72 personnel cost expenditures tested (3%).

- For one error, involving the CSE program, one employee's personnel costs were not allocated in accordance with the employee's timesheet. As a result, fiscal staff charged the employee's time spent working on voter registration activities to the CSE program, resulting in $0.31 in questioned costs. When projected to the population, the $0.31 resulted in likely questioned costs far in excess of $10,000 for the CSE program.

  For the purpose of questioned costs analysis, our sample testwork included a review of 4 CSE personnel transactions totaling $5.50 from a population of all 193,916 CSE personnel transactions totaling $12,982,095. OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a type of federal compliance requirement.

- For the other error, involving the Summer Food Service Program for Children (SFSP) program, DHS program management did not maintain semi-annual certifications or personnel activity reports to support the employee's personnel costs, resulting in $10.78 in questioned costs.

Expanded Testwork

As a result of the errors noted in the original testwork, we expanded our work and reviewed all personnel costs that were treated as direct costs according to the approved cost allocation plan and that were charged to more than one federal award. Based on our expanded review, we found that the Deputy did not ensure that the personnel costs charged to federal awards were supported by adequate documentation and that fiscal control procedures for CCDF and SSBG were sufficient to demonstrate that federal funds had been used appropriately for personnel costs. Specifically, DHS did not maintain personnel activity reports, semi-annual certifications, or other documentation sufficient to support the distribution of personnel costs to federal programs for employees working on multiple programs. Instead of allocating these payroll costs to programs based on documentation supporting actual time and effort distributions, DHS allocated these payroll costs to federal programs based on certain predefined percentages established in Edison, the state's accounting system. We questioned $971,914 for the inadequately supported personnel costs, including the $10.78 SFSP expenditure identified in the original sample testwork.

See Table 2 for the total amount of inadequately documented personnel costs by program. See Table 3 for the total amount of inadequately documented personnel costs by activity and program.

Table 2: Inadequately Documented Personnel Costs by Program and Funding Source

Program	Federal Expenditures	State Expenditures	Total Expenditures
CCDF	-	$11,028	$11,028
SAE	$500,985	-	$500,985
SFSP	$15,254	-	$15,254
SNAP	$22,581	$ 22,908	$45,489
SSBG	$74,149	-	$74,149
TANF	$28,123	$32,391	$60,514
MAP	$62,893	$ 62,947	$125,840
VR	$54,609	$ 14,710	$69,319
SGAT	$69,336	-	$69,336
Grand Total:	**$827,930**	**$143,984**	**$971,914**

Source: Expenditure amounts obtained from Edison, the state's accounting system.
SAE -State Administrative Expenses for Child Nutrition

SGAT-Assistive Technology Program, CFDA 84.224.
MAP-Medical Assistance Program (Medicaid), CFDA 93.778.

Table 3: Inadequately Documented Personnel Costs by Description of Employees' Activities and Program:		
Activity Description	**Program**	**Expenditures**
Adult Protective Services Systems	SSBG	$74,149
Adult Protective Services Systems	MAP	115,922
Families First Child Care	CCDF	11,028
Families First Child Care	TANF	47,008
Family Assistance Disaster Relief	SNAP	45,489
Family Assistance Disaster Relief	TANF	13,506
Family Assistance Disaster Relief	MAP	9,918
Food Program Administration	SAE	500,985
Food Program Administration	SFSP	15,254
TN Technology Access Project Director	VR	69,319
TN Technology Access Project Director	SGAT	69,336
	Total	**$971,914**

DHS fiscal staff allocates personnel costs using combinations of department and program codes (activity codes) in Edison. Each activity code is associated with one or more cost objectives, depending on the job duties of the individuals working on that activity. Staff did not maintain documentation to support the allocation percentages used to charge personnel costs to different programs for the following activities:

- The personnel costs associated with employees who work on Families First Child Care activities are funded using Temporary Assistance for Needy Families (TANF) and CCDF funds. Federal regulations permit the transfer of TANF funds to the CCDF program, in which case TANF funds may be used for CCDF personnel costs. Based on review of the accounting records, the employees worked on TANF and CCDF activities, not just CCDF activities; therefore, employees were required to prepare personnel activity reports to support a distribution of costs to TANF and CCDF. This conclusion was supported by the Statistical Analyst, who stated that the employees did not spend all of their time on TANF activities.
- We also noted that DHS considered employees working on the Food Program Administration activity to be employees working on multiple grant awards; however, DHS did not maintain personnel activity reports or semi-annual certifications to support any of the employees' personnel costs.
- Based on discussion with the Statistical Analyst, fiscal staff used a random moment sampling method (a technique used to allocate indirect costs to multiple programs) to allocate personnel costs associated with the Family Assistance Disaster Relief activities. According to the Statistical Analyst, DHS used this sampling method in lieu of maintaining personnel activity reports for employees working on this activity. The Family Assistance Disaster Relief activities, however, were not identified in the

department's cost allocation plan as activities for which costs could be allocated through the random moment sampling method.

- For the remaining two activities, Adult Protective Services Systems and TN Technology Access Project Director, the employees worked on multiple cost objectives, but DHS did not maintain semi-annual certifications, personnel activity reports, or other documentation to support allocations of personnel costs charged to federal programs.

Based on review of the accounting records and discussion with the Statistical Analyst, we also noted that the Deputy did not ensure fiscal control procedures were sufficient to demonstrate that CCDF and SSBG funds were used appropriately. Specifically, DHS' procedures to allocate personnel costs for CCDF and SSBG for Adult Protective Services Systems and Families First Child Care activities were based on predetermined percentages, and DHS did not maintain documentation of the employees' actual time spent on grant activities. To ensure compliance with fiscal control requirements are met for employees who work on CCDF or SSBG and other cost objectives in a single pay period, DHS has to prove CCDF or SSBG grants are charged only for the actual time employees spend working on allowable CCDF or SSBG activities. See Table 3 above for the impact of using preset percentages for Adult Protective Services Systems and Families First Child Care activities.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. We determined that management did not include in its annual risk assessment the risks or mitigating controls associated with the inadequate documentation of personnel costs or fiscal control and accounting procedures that are insufficient to demonstrate that federal grants have been used appropriately.

Criteria

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, and Title 45, CFR, Part 75 (Uniform Administrative Guidance), Section 430(i)(1)(vii), if an employee works on more than one federal award, charges to federal awards for salaries and wages must be based on records that support the distribution of the employee's salary or wages among specific activities or cost objectives.

In 45 CFR 75.430(i)(5), the Uniform Administrative Guidance states,

> For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of or in addition to the records described in paragraph (1) if approved by the cognizant agency for indirect cost.

For those programs subject to OMB Circular A-87 during the audit period, OMB Circular A-87, Attachment C, Section (8)(h)(3), states,

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic

> certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In addition, OMB Circular A-87, Attachment C, Section (8)(h)(4), states,

> Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency.

Title 45, CFR, Part 95, Section 517(a), states, "A State must claim FFP [federal financial participation] for costs associated with a program only in accordance with its approved cost allocation plan." This requirement is effectively extended to all programs administered by state public assistance agencies by Section C, Appendix VI, of 2 CFR 200 (formerly Section C of OMB A-87, Attachment D), which states,

> State public assistance agencies will develop, document and implement, and the Federal Government will review, negotiate, and approve, public assistance cost allocation plans in accordance with Subpart E of 45 CFR Part 95. The plan will include all programs administered by the state public assistance agency.

The SSBG and CCDF programs are not subject to the OMB Circular A-87 or the cost principles in Subpart E of the Uniform Guidance. Instead, Title 45, CFR, Part 96, Section 30(a) (for SSBG), and Title 45, CFR, Part 98, Section 67(c)(2) (for CCDF), state that fiscal control and accounting procedures are sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the statute authorizing SSBG or the provisions of CCDF regulations, respectively.

<u>Cause</u>

Based on discussion with the Statistical Analyst, DHS considered the voter registration activities to be a CSE-related activity; therefore, DHS allocated the costs to the CSE program. Although we requested that DHS staff provide federal guidance demonstrating that time spent working on voter registrations could be charged to CSE, DHS staff did not provide such guidance.

The Statistical Analyst added that allocating personnel costs to federal programs based on predefined percentages established in the accounting system was a substitute method that was allowable under the approved cost allocation plan; however, we could not identify this method in the approved cost allocation plan for any of the inadequately documented activities. In addition, a cost allocation plan that permits using only predefined percentages to support distributions of personnel costs would result in an invalid plan, based on 45 CFR 95.507(a)(2), because the plan would be inconsistent with OMB's accounting principles and standards.

Specifically, according to 2 CFR 200 and 45 CFR 75.430(i)(1)(vii), if an employee works on more than one federal award, charges to federal awards for salaries and wages must be based on records that support the distribution of the employee's salary or wages among specific activities or cost objectives. For example, if the cost allocation plan states that costs will be arbitrarily allocated 50% to TANF and 50% to CCDF (regardless of what portion of an employee's time is actually spent on these programs), the plan would be inconsistent with 2 CFR 200 and 45 CFR 75.

Although DHS employees reported their work time in Edison, we concluded that Edison timesheets do not represent adequate supporting documentation for personnel costs. Employees enter task profile IDs on the Edison timesheets, which automatically allocate payroll charges to one or more federal or non-federal funding sources without the employee necessarily being aware of the programs charged or the percentages used to charge their personnel costs to the different funding sources. In addition, the funding sources and allocation percentages associated with a task profile ID may be adjusted without the employee's knowledge. As a result of these factors, Edison timesheets do not necessarily represent an employee's true work activity. Therefore, we concluded that Edison timesheets alone are not sufficient evidence of an employee's activity and therefore cannot be used as the only supporting documentation for the allocation of personnel costs to grant awards.

Effect

Failure to ensure that fiscal and program staff maintain sufficient documentation for personnel costs charged to federal awards and that fiscal control and accounting procedures are sufficient to demonstrate that federal funds have been used appropriately increases the risk of noncompliance with federal requirements and the possibility that federal agencies will seek to recover disallowed and/or unsupported costs.

Questioned Costs

We questioned $827,930 in federal costs and $143,984 in state matching funds, for a total of $971,914 in questioned costs. See Table 2 above for total questioned costs by program.

Condition B. Child Support Enforcement Funds Were Used for Unallowable Activities

The department's Deputy Commissioner of Finance and Administration did not ensure that charges to the CSE program were for allowable activities. Specifically, DHS charged to the CSE program costs for general administrative training provided through the department's Office of Learning and Professional Development. The training costs were allocated to various programs as indirect costs; however, general administrative training was not allowable under the CSE program.

We also determined that management did not include in its annual risk assessment the mitigating controls associated with ensuring that federal funds are only used for allowable activities.

Criteria

According to 45 CFR 304.23(d), federal financial participation for CSE is not available for

> Education and training programs and educational services except direct cost of short term training provided to IV-D agency staff or pursuant to §§304.20(b)(2)(viii) [related to reasonable and essential short term training associated with the State's program of voluntary paternity establishment services] and 304.21 [related to reasonable and essential short term training of court and law enforcement staff assigned to support enforcement functions certain cooperative agreements].

Cause

The department's approved cost allocation plan noted that CSE funds may not be used for general administrative training provided through the Office of Learning and Professional Development; therefore, the DHS staff responsible for preparing the cost allocation plan was aware of this compliance requirement for CSE. Although we asked, department management did not communicate to us which member of the fiscal or budget staff was responsible for ensuring cost allocations to federal programs were in accordance with the department's approved cost allocation plan.

Effect

Failure to ensure that charges to federal awards are for allowable activities increases the risk that fiscal staff will not comply with federal requirements and the possibility that federal agencies will seek to recover disallowed costs.

Questioned Costs

We questioned $32,846 of unallowable federal costs charged to the CSE program and $17,875 in state matching costs for a total of $50,721.

Summary of All Questioned Costs

Condition	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
Personnel Costs Not Supported by Adequate Documentation (Condition A)	$827,930	$143,984	$971,914
CSE Funds Used for Unallowable Activities (Condition B)	$32,846	$17,875	$50,721
Totals	**$860,776**	**$161,859**	**$1,022,635**

OMB Circular A-133 requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Department of Human Services' Commissioner and Deputy Commissioner of Finance and Administration should ensure adequate documentation of personnel costs, such as periodic certifications and personnel activity reports, is maintained unless a substitute method is approved by the cognizant federal agency. The Commissioner and Deputy should also assign to specific staff the responsibility of ensuring personnel costs are charged according to the approved cost allocation plan.

The Deputy Commissioner of Finance and Administration should also ensure that the department's annual risk assessment is revised to include the risks and mitigating controls associated with the conditions noted in this finding.

Management's Comment

We concur in part.

The Department does not agree with the questioned costs. All expenditures made were for allowable program costs and activities.

The employees noted worked in the program for which the funds should have been charged. The Department is in the process of implementing an automated cost allocation system. As a part of this process, the Department is evaluating all cost allocations and internal control processes involving cost allocation. The Department will work with the Department of Finance and Administration to ensure that future Treasury State Agreement methodologies are aligned with the new cost allocation system and meet federal requirements.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. Under 2 CFR 200.403(g) and OMB A-87, Attachment A, C.1.(j), to be allowable costs, federal cost principles require the costs to be adequately documented. Because DHS management did not maintain adequate documentation for personnel costs, we questioned the costs. In addition, according to 45 CFR 304.23(d), using Child Support Enforcement (CSE) funds for general administrative training is not an allowable activity for CSE; therefore, we questioned the costs.

Finding Number	2015-019
CFDA Number	10.551, 10.561, 10.558, 10.559, 10.560, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Child and Adult Care Food Program Child Nutrition Cluster State Administrative Expenses for Child Nutrition Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Social Services Block Grant Medicaid Cluster Disability Insurance/Social Security Insurance Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 2010IN253345, 2011IN253345, 2012IN253345, 2013IN253345, 2014IN253345, 2015IN253345, H126A130063, H126A140063, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1205TN4004, G1305TN4004, G1405TN4004, G1505TN4004, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G1501TNCCDF, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, G1501TNSOSR, 05-1405TN5MAP, 05-1505TN5MAP, 04-13-04TNDI00, 04-14-04TNDI00, and 04-15-04TNDI00
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency (10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$60,727 (10.558) $7,661 (10.559) $62,153 (10.560) $358,420 (10.561) $239,400 (84.126) $458,748 (93.558) $29,152 (93.563) $21,492 (93.667) $21,024 (93.778) $173,769 (96.001)

Repeat Finding N/A

<u>The Department of Human Services did not amend its cost allocation plan and used cost allocation methods that were not authorized by the plan, resulting in federal questioned costs of $1,432,546</u>

<u>Background</u>

Because the Department of Human Services (DHS) administers various public assistance programs, including Temporary Assistance for Needy Families, Supplemental Nutrition Assistance Program, Child Care and Development Fund, and Child Support Enforcement, federal regulations require DHS to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by DHS. According to federal regulations, the Department of Human Services is allowed to allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the *Cost Allocation Plan for the TN Department of Human Services,* effective July 1, 2014, as approved by the U. S. Department of Health and Human Services.

According to the cost allocation plan, the department's programs and activities are identified by department codes in Edison, the state's accounting system. A six-digit program code may also be used to further identify and track costs for certain programs and activities. For each combination of department and program codes (activity codes) identified in the plan, the department's plan provides a brief description of the activity or program (activity); identifies whether the costs for the activity will be allocated to all programs, multiple programs, or one program; and identifies the basis that will be used to allocate costs for the activity.

<u>Condition</u>

For our audit period, July 1, 2014, through July 31, 2015, to determine if the department followed its approved cost allocation plan when charging costs to federal grants, we compared the Edison activity codes that DHS staff used to charge personnel expenditure costs to grants with all 378 combinations of activity codes included in the department's cost allocation plan. We specifically wanted to determine whether the department amended its cost allocation plan to include all activities and allocated costs according to the plan.

The cost allocation plan details how costs will be allocated by providing activity codes and cost allocation methods for each activity code. While each activity code in the plan is associated with no more than one underlying activity, there are many instances where one activity is associated with multiple activity codes. (For example, DHS may have submitted only one activity code for the Vocational Rehabilitation program in its plan but actually used multiple activity codes for the program to provide for a greater level of detail in accounting records.)

As a result, in order to determine whether costs for the activity codes were allocated in accordance with the approved cost allocation plan, we first determined whether the activity description was included in the plan.

If the activity description was included in the plan (but the activity code was not the same code used by fiscal staff when recording grant transactions), we then determined whether DHS used the allocation method described in the plan for the activity description.

A total of $391,627,991 of the department's expenditures during our audit period were subject to the cost allocation plan.[26] The department's payroll and employee benefits comprised $236,894,629 of the $391,627,991. Based on our review, we found that DHS' Deputy Commissioner of Finance and Administration failed to ensure that DHS' cost allocation plan was amended to include all activity codes and that costs were allocated to programs according to the methodologies in the approved cost allocation plan.

Failure To Amend the Cost Allocation Plan

DHS' Deputy Commissioner of Finance and Administration failed to ensure the cost allocation plan was amended to include 91 activity codes the department used to allocate costs. Payroll and benefit expenditures charged to these 91 activity codes totaled $13,559,805. See Table 1 for the total expenditures charged to each federal program.

Table 1
Payroll and Benefit Expenditures (by Program) Charged to Activity Codes Not Included in the Approved Cost Allocation Plan

	Federal Expenditures	State Expenditures	Program Income Expenditures*	Total Expenditures
CACFP	$(87,918)	-	-	$(87,918)
CSE	$28,924	$35,843	-	$64,767
CCDF	-	$174,806	-	$174,806
SSDI	$287,164	-	-	$287,164
SAE	$213,624	-	-	$213,624
SFSP	$(46,380)	-	-	$(46,380)
SNAP	$1,032,772	$1,033,974	-	$2,066,746
SSBG	$56,804	-	-	$56,804
TANF	$535,613	$396,364	-	$931,977
MAP	$1,192,021	$1,180,254	-	$2,372,275
ILOB	$392	-	$788,647	$789,039
VR	$5,301,684	$1,435,217	-	$6,736,901
Total	**$8,514,700**	**$4,256,458**	**$788,647**	**$13,559,805**

Source: Summarized using accounting records from Edison, the state's accounting system.
* Program income expenditures are expenditures funded using program income.

[26] Federal regulations exclude expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients from cost allocation plans.

TANF- Temporary Assistance for Needy Families	**VR** - Vocational Rehabilitation Grants to States
SNAP -Supplemental Nutrition Assistance Program	**SSBG** - Social Services Block Grant
CCDF- Child Care and Development Fund	**CACFP** - Child and Adult Care Food Program
CSE - Child Support Enforcement	**SFSP** - Summer Food Service Program for Children
MAP - Medical Assistance Program (Medicaid)	**SSDI** - Disability Insurance/Social Security Insurance
ILOB - Independent Living Services for Older Individuals Who are Blind program	**SAE** - State Administrative Expenses for Child Nutrition

For 74 of these 91 activity codes, we found that even though fiscal staff had not included a proper activity code in the cost allocation plan (either in the original submission or through amendments), fiscal staff allocated costs for these 74 activity codes based on allocation methods associated with other activity codes included in the plan. In general, costs appeared to be allocated the same as other similar program activities. As a result, we did not question costs due to fiscal staff's use of activity codes that were not approved in the plan. We reported this condition as a finding because even though the allocation methods for the 74 codes appeared reasonable, the department did not follow the federal requirement to amend and resubmit the plan to the U.S. Department of Health and Human Services for new codes and obtain approval of the allocation methods for those codes.

Methodologies Not in Accordance With the Approved Cost Allocation Plan

For the remaining 17 activity codes that were not included in the approved cost allocation plan, we found that the department's fiscal staff used methodologies to allocate expenditures that were inconsistent with the approved cost allocation plan. Specifically, we noted the following:

a. One activity code was an activity described in the accounting records as "TANF Quality Control," but we could identify no reference, description, or allocation method for this activity in the approved cost allocation plan. Since DHS management excluded the activity from the plan, we concluded that DHS' allocation of costs to the activity was not in accordance with the approved cost allocation plan.

b. For one activity, the "Medical Evaluation Unit," the cost allocation plan required costs to be treated as direct charges to the Medicaid Cluster; however, we found that all costs charged to this activity were funded by TANF.

c. For the remaining 15 activity codes, the approved cost allocation plan required DHS fiscal staff to treat the costs as indirect costs. Specifically, DHS was required to allocate the activities' costs to all programs administered by DHS based on the number of each program's full-time equivalent staff or the program's square footage of office space. Instead of allocating the costs to all programs using these bases, we found that DHS fiscal staff allocated costs for the 15 activity codes as direct costs to one, two, or three programs, depending on the activity code.

The expenditures charged to federal programs as a result of allocation methodologies that were not in accordance with the cost allocation plan are summarized in the Table 2 below.

Table 2
Payroll Expenditures Charged Based on Methodologies Not Consistent With the Cost Allocation Plan

	Federal Expenditures	State Expenditures	Total Expenditures
CACFP	$60,727	-	$60,727
CSE	$29,152	$21,302	$50,454
SSDI	$173,769	-	$173,769
CCDF	-	$82,074	$82,074
SAE	$62,153	-	$62,153
SFSP	$7,661	-	$7,661
SNAP	$358,420	$358,420	$716,840
SSBG	$21,492	-	$21,492
TANF	$458,748	$376,627	$835,375
MAP	$21,024	$21,025	$42,049
VR	$239,400	$64,719	$304,119
Total	**$1,432,546**	**$924,167**	**$2,356,713**

Source: Summarized using accounting records from Edison, the state's accounting system.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. We determined that management did not include in its annual risk assessment the risks or mitigating controls associated with allocating costs in accordance with the approved cost allocation plan or updating the approved cost allocation plan.

Criteria

According to Title 45, *Code of Federal Regulations* (CFR), Section 95.507(b)(4), the state's cost allocation plan must include

> the procedures used to identify, measure, and allocate all costs to each benefiting program and activity (including activities subject to different rates of FFP [federal financial participation—the federal government's share of expenditures made by a state agency for public agency programs]).

In addition, Title 45, CFR, Section 95.509 requires the state to promptly amend the cost allocation plan and submit the amended plan to the U.S. Department of Health and Human Services if

> changes occur which make the allocation basis or procedures in the approval [*sic*] cost allocation plan invalid.

Title 45, CFR, Section 95.519 states,

> If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in §95.517), or if the State failed to submit an amended cost allocation plan as required by §95.509, the costs improperly claimed will be disallowed.

Finally, Title 2, CFR, Part 200 (and Title 45, CFR, Part 75), Appendix VI, Section C states,

> State public assistance agencies will develop, document and implement . . . public assistance cost allocation plans in accordance with Subpart E of 45 CFR Part 95. The plan will include all programs administered by the state public assistance agency.

Cause

Based on discussion with the Budget Analysis Director, these issues were primarily the result of DHS failing to amend its cost allocation plan. In addition, based on our discussion with fiscal and budget staff, we could not identify any member of budget or fiscal staff or management who was responsible for (or was aware of an individual responsible for) verifying that DHS' actual allocation practices were in accordance with its approved cost allocation plan.

Effect

Failure to amend the plan or to charge costs in accordance with the cost allocation plan increases the risk that the federal government will disallow charges to federal programs and seek recovery.

Questioned Costs

As a result of allocation methodologies that were not in accordance with the cost allocation plan, we questioned $1,432,546 in federal expenditures and $924,167 in state matching expenditures charged to federal programs. See Table 2 above for the breakdown of costs by program.

This finding, in conjunction with findings 2015-016, 2015-017, 2015-018, 2015-020, 2015-022, 2015-028, 2015-029, 2015-030, 2015-031, 2015-033, 2015-037, and 2015-046 (which also included federal questioned costs for the federal compliance requirement Allowable Costs/Cost Principles), results in total known federal questioned costs exceeding $10,000 for a type of compliance requirement for a federal program.

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner and Deputy Commissioner of Finance and Administration should assign staff to verify that the Department of Human Services' cost allocation plan is amended to include all activity codes the department uses to account for expenditures, that the amended plan is submitted for approval, and that the department's accounting practices for cost allocation are consistent with the approved cost allocation plan. Management should also include in its annual risk assessment the risks and mitigating controls associated with allocating costs in accordance with the approved plan and with updating the cost allocation plan when needed.

<u>Management's Comment</u>

We concur in part.

The Department does not agree with the questioned costs and it is important to note that expenditures were for allowable program costs and activities.

As a part of the routine process of updating the cost allocation plan, as needed, an updated plan will be submitted to the U.S. Department of Health and Human Services, in accordance with 45CFR 95.509.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

<u>Auditor's Comment</u>

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. As noted in the finding, federal regulations require the costs to be charged in accordance with the approved cost allocation plan, and DHS management did not charge costs in accordance with the approved cost allocation plan; therefore, we questioned the costs based on management's noncompliance with federal requirements.

Finding Number	2015-020
CFDA Number	10.551, 10.558, 10.559, 10.560, 10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Child and Adult Care Food Program Child Nutrition Cluster State Administrative Expenses for Child Nutrition Rehabilitation Services – Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care Development Fund Cluster Social Services Block Grant Medicaid Cluster Disability Insurance/Social Security Insurance Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 2010IN253345, 2011IN253345, 2012IN253345, 2013IN253345, 2014IN253345, 2015IN253345, H126A130063, H126A140063, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1205TN4004, G1305TN4004, G1405TN4004, G1505TN4004, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G1501TNCCDF, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, G1501TNSOSR, 05-1405TN5MAP, 05-1505TN5MAP, 04-13-04TNDI00, 04-14-04TNDI00, and 04-15-04TNDI00
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency (10.551, 10.558, 10.559, 10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	\$7 (10.558) \$7 (10.559) \$72 (10.560) \$2,424 (84.126) \$922 (93.558) \$688 (93.563) \$487 (93.667) \$300 (93.778) \$2,739 (96.001)
Repeat Finding	N/A

<u>Errors in the cost allocation spreadsheets resulted in the department overcharging and undercharging federal programs for administrative costs, resulting in federal questioned costs of $7,646</u>

<u>Background</u>

The Department of Human Services (DHS) administers various federal grants, including the Temporary Assistance for Needy Families, Child Care Development Fund, Child Support Enforcement, Social Service Disability Insurance, Vocational Rehabilitation, Social Services Block Grant, Medical Assistance Program, Summer Food Service Program, Child and Adult Care Food Program, State Administrative Expenses for Child Nutrition, and Supplemental Nutrition Assistance Program. According to federal regulations, the Department of Human Services obtained approval from the U.S. Department of Health and Human Services for its *State of Tennessee Department of Human Services Cost Allocation Plan* dated July 1, 2014. Under its approved plan, the department is allowed to allocate administrative costs that cannot be directly charged to a specific federal program to all the federal programs.

Title 95, *Code of Federal Regulations* (CFR), Section 507(a) states a cost allocation plan for a state agency must describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the state agency.

According to the *Cost Allocation Plan for the TN Department of Human Services*, DHS' programs and activities are identified using department codes in Edison, the state's accounting system. For each combination of department and program codes identified in the Cost Allocation Plan, the plan provides a brief description of the activity or program; identifies whether the costs for the activity will be allocated to all programs, multiple programs, or one program; and identifies the basis that will be used to allocate costs for the activity. Charges are distributed to the programs based on percentages derived from the cost allocation tables. The Random Moment Sampling (RMS) Administrator or the Statistical Analyst prepares the monthly cost allocation tables, and the Budget Analyst Coordinator reviews the cost allocation tables before the RMS administrator provides the tables to Fiscal Services. Fiscal Services then prepares the cost allocation spreadsheets using the administrative cost percentages obtained from the RMS Administrator to allocate federal funds to programs administered by DHS.

<u>Condition</u>

We tested the department's cost allocation process for the months of November 2014 and April 2015. Based on testwork performed, we found the Statistical Analyst used an incorrect formula in the Allocation of State Office All Program Costs (Table 1) for the month of April 2015, resulting in inaccurate allocation percentages. Fiscal staff used the inaccurate allocation percentages to calculate costs allocated to the federal programs based on DHS' Cost Allocation Plan. This allocation error also affected the calculation of allocation percentages used in the Allocation of the Office for Child Support and Family Services (Table 3) and Allocation of Multi-Program (Table FA-5).

Additionally, based on the results of our audit work, we found that the Budget Analyst Coordinator's monthly review did not identify the allocation errors in the cost allocation tables.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner did not ensure the risks associated with cost allocation were included in the department's annual risk assessment.

Criteria

According to 45 CFR 95.507 (b),

> (8) A certification by a duly authorized official of the State stating:
>
> (i) That the information contained in the proposed cost allocation plan was prepared in conformance with Office of Management and Budget Circular A–87.
> (ii) That the costs are accorded consistent treatment through the application of generally accepted accounting principles appropriate to the circumstances.
> (iii) That an adequate accounting and statistical system exists to support claims that will be made under the cost allocation plan; and
> (iv) That the information provided in support of the proposed cost allocation plan is accurate.

Cause

The Budget Analysis Director stated that "the error occurred because of an incorrect formula that was not identified in one of the cost allocation tables."

Effect

As a result of these allocation errors, we found that DHS management overcharged the following federal programs: Temporary Assistance for Needy Families (TANF), Child Care Development Fund (CCDF), Child Support Enforcement (CSE), Social Service Disability Insurance (SSDI), Vocational Rehabilitation (VR), Social Services Block Grant (SSBG), Medical Assistance Program (MAP), Summer Food Service Program (SFSP), Child and Adult Care Food Program (CACFP), and State Administrative Expenses for Child Nutrition (SAE).

Based on our calculations using the actual allocation statistics, the impact of using the incorrect formula on the federal programs is presented in Table 1 below.

Additionally, we found that DHS management failed to charge the Supplemental Nutrition Assistance Program (SNAP) for all of its allowable administrative costs. When the state does not maximize the available federal revenue, it must fund the program expenditures with state resources. DHS failed to draw $6,609 in available federal revenue, which is also identified in Table 1 below.

Table 1			
Impact of Cost Allocation Errors By Program			
Amount Overcharged			
Program	**Federal**	**State**	**Total**
TANF	$922	$921	$1,843
CCDF	-	$1,910	$1,910
CSE	$688	$355	$1,043
SSDI	$2,739	-	$2,739
VR	$2,424	$656	$3,080
SSBG	$487	-	$487
MAP	$300	$300	$600
SFSP	$7	-	$7
CACFP	$7	-	$7
SAE	$72	-	$72
Total	$7,646	$4,142	$11,788
Amount Undercharged			
SNAP	$(6,609)	$(6,609)	$(13,218)

Questioned Costs

Total questioned costs for these overcharged transactions totaled $11,788. The federal portion of the questioned costs is $7,646, and the state portion of the questioned costs is $4,142.

This finding, in conjunction with findings 2015-016, 2015-017, 2015-018, 2015-019, 2015-022, 2015-028, 2015-029, 2015-030, 2015-031, 2015-033, 2015-037, and 2015-046 (which also included federal questioned costs for the federal compliance requirement Allowable Costs/Cost Principles), results in total known federal questioned costs exceeding $10,000 for a type of compliance requirement for a federal program.

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should ensure that the Budget Coordinator adequately reviews all monthly cost allocation spreadsheets to ensure that costs are properly allocated and federal revenue is maximized.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

The Department agrees that an incorrect formula was inadvertently used in the April 2015 allocation tables. The Department's internal controls identified the table errors in the subsequent month and corrected them going forward. This issue did not occur in other review months.

Finding Number	2015-021
CFDA Number	10.558 and 10.559
Program Name	Child and Adult Care Food Program Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011-2015
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558) Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	2014-021

As noted in the prior audit, the Department of Human Services has not provided proper oversight of the Child and Adult Care Food Program and the Summer Food Service Program for Children, resulting in numerous control and compliance deficiencies and federal questioned costs

Background

The Department of Human Services (DHS) operates the Child and Adult Care Food Program (CACFP) and the Summer Food Service Program for Children (SFSP) in partnership with the U.S. Department of Agriculture and local organizations to provide free, reduced-price, and paid meals to eligible participants. The CACFP program is a year-round program, and SFSP operates during the summer months when school is out. DHS contracts with subrecipients to provide for administration over the programs and for the delivery of meals to eligible participants. The department reimburses the subrecipients to cover the administrative costs and the costs of meals served. DHS, as a pass-through entity of federal funds to subrecipients, is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Management concurred in part with the prior audit finding and stated,

> The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program.

Condition and Cause

We noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to these federal programs, as discussed in detail in separate findings in this audit report. These findings, when considered individually and in aggregate, indicate that DHS management did not properly administer the programs by providing adequate oversight and implementing effective controls over subrecipients. (See table 1 below.) In addition, management continues to not address audit findings we and the federal grantors have cited in prior years which have resulted in repeat audit findings.

Table 1
Summary of CACFP and SFSP New and Repeated Findings

Program	Finding	Finding Number	Questioned Costs
CACFP	New - The Department of Human Services has not established proper internal controls to ensure subrecipient agencies correctly calculated meal reimbursement claims	2015-022	$25,623
CACFP	Repeat - As noted in the prior three audits, the Department of Human Services did not ensure that subrecipients claimed meals only for eligible participants, accurately determined participant eligibility, and maintained complete and accurate eligibility applications and addendums as required by federal regulations	2015-023	$72,950
CACFP	New - The Department of Human Services did not ensure supporting documentation for meal reimbursement claims was maintained when a subrecipient closed and also reimbursed a subrecipient for unapproved feeding sites	2015-024	$31,862
CACFP	Repeat - As noted in the prior audit, the Department of Human Services has inadequate internal controls over subrecipient eligibility determination	2015-025	$10,768,519
CACFP	New - The Department of Human Services did not ensure sponsoring organizations performed adequate monitoring of their feeding sites	2015-026	-
CACFP	New - The Department of Human Services' Child and Adult Care Food Program staff did not document their review of the National Disqualification List	2015-027	-
CACFP	New - The Department of Human Services did not perform basic monitoring activities or consider potential fraud risks for one subrecipient	2015-028	$14,527
CACFP	New - The Department of Human Services did not recognize fraud risk indicators through its routine monitoring efforts	2015-029	$70,421
SFSP	New - The Department of Human Services did not calculate Summer Food Service Program for Children cash advances consistently and correctly, did not pay cash advances timely, paid cash	2015-030	$25,721

Program	Finding	Finding Number	Questioned Costs
	advances not requested, and paid advances that exceeded calculated estimates and the sponsor's budget		
SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not ensure that Summer Food Service Program for Children sponsors maintained complete and accurate supporting documentation for meal reimbursement claims and that sponsors claimed meals and received reimbursement payments in accordance with federal guidelines	2015-031	$29,993
SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and claimed meals according to established federal regulations	2015-032	-
SFSP	Repeat - As noted in the prior audit, the Department of Human Services failed to implement processes and controls to track and recover excess funds from non-returning sponsors for the 2015 Summer Food Service Program for Children	2015-033	$206,165
SFSP	New - The Department of Human Services did not ensure that Summer Food Service Program for Children sponsors used appropriate income eligibility application forms when required, adequately documented the individual eligibility process, or implemented sufficient internal controls to ensure income eligibility application forms were filled out completely and accurately	2015-34	-
SFSP	New - The Department of Human Services paid Summer Food Service Program for Children subrecipient claims for reimbursement that were submitted late	2015-035	$236,200
SFSP	New- The Department of Human Services did not document its monitoring review of the Summer Food Service Program for Children sponsors' food service management companies	2015-036	-
		Total	**$11,481,981**

<u>Current Audit Testwork</u>

Given the problems identified during our testwork, we also reviewed DHS' November 2014 Financial Integrity Act Risk Assessment. We determined management did not adjust the risk assessment to address the numerous problems noted in the prior audit, even after repeat findings and management's comments describing the risk level associated with these federal awards.

Tennessee Food Program System Design Deficiencies

DHS uses the Tennessee Food Program (TFP) system to process meal claim reimbursements for subrecipients. DHS has included in TFP some of the basic edit checks required by the *Code of Federal Regulations* (CFR), including authorized months, days, meals, capacity, and users; however, these edit checks alone were not sufficient to prevent or adequately mitigate the risks of erroneous payments to subrecipients. For instance, we found that TFP was not sufficiently designed to include system controls addressing risks and noncompliance with requirements at the subrecipients' feeding site level. Because the system controls are ineffective at the feeding site level, the department cannot prevent subrecipients from submitting claims that are inaccurate due to error or fraud. To illustrate, the Interim Director of Community Services was not aware the department reimbursed a subrecipient for meals served at unapproved feeding sites because the system does not retain feeding site level data. (For more details, see finding 2015-024.)

In addition, TFP does not have the capability for subrecipients to submit documentation to support the meal reimbursement claims. As evidenced in findings 2015-022 and 2015-031, management cannot rely on the TFP system as a tool to identify potential areas of the subrecipients' noncompliance.

Monitoring Activities Deficiencies

Without an adequate claims system, management has to rely fully on monitoring efforts to detect noncompliance, fraud, waste, or abuse, and these monitoring efforts often do not occur until after the reimbursement is made to the subrecipient. In other words, because the TFP lacks sufficient preventive controls, DHS uses its External Program Review (EPR) as a detective control (after reimbursements are made) to determine whether subrecipients complied with federal program requirements and billed the department appropriately.

<u>Current monitoring process as described by management</u>

We analyzed the EPR's monitoring process and determined that the department contracts with over 600 CACFP and SFSP subrecipients. In general, the department's EPR staff strives to meet the basic CFR monitoring requirements, which include risk assessments for subrecipients and a minimum frequency of site visits. The subrecipients' risk is assessed based on the number and nature of the findings reported in previous site visits, as well as the amount of reimbursement the subrecipient received.

Based on federal regulations, the department's monitoring schedule is determined based on an initial site visit. If the initial site visit does not reveal any significant deficiencies, monitors will schedule the next visit for two to three years in the future, depending on the type of subrecipient. If the initial site visit does reveal significant deficiencies, monitors will schedule annual monitoring visits until the subrecipient performs corrective action and the finding is disposed.

During a site visit, EPR monitors use a department-created review guide to ensure they consider all federal requirements in their review.

Our review of the monitoring process

As part of our detailed review of the sufficiency of the EPR site visits, we analyzed EPR's monitoring results by comparing them with our own results from the subrecipient site visits. We found that EPR monitors identified similar issues that we noted in the findings referenced in Table 1 above but did not always expand their site review to perform additional procedures, including analytical procedures to address fraud risk indicators, to determine the pervasiveness of the subrecipients' control and compliance deficiencies. Based on our audit findings 2015-022, 2015-028, 2015-029, and 2015-031 we do not believe the subrecipient monitoring process, including risk assessment of subrecipients, was sufficient to negate the risks of error and potential fraud noted in our findings.

Insufficient Staffing Levels and High Turnover

In analyzing the sufficiency of departmental oversight responsibility for federal programs, we determined that the department does not have sufficient staff to effectively perform monitoring activities. We reviewed the department's organizational chart revised August 2015 as well as the organizational chart revised March 2016 for the Internal Audit, External Program Review, and Program Integrity divisions. See Table 2 for staffing levels. These three divisions are responsible for investigating fraud, waste, and abuse in the department and in the federal programs the department administers. With the number of subrecipients participating in the programs and the frequency of required monitoring visits, the current staff cannot effectively monitor the subrecipients' compliance with federal regulations.

Table 2
Staffing Levels for EPR and Internal Audit

Based on March 2016 Organizational Chart				
	Positions Available	**Positions Filled**	**Positions Vacant**	**Percent Vacant**
External Program Review	36	26	10	28%
Internal Audit	12	3	9	75%
Office of Program Integrity*	68	64	4	6%
Based on August 2015 Organizational Chart				
External Program Review	34	24	10	29%
Internal Audit	10	3	7	70%
Office of Program Integrity	68	Unknown	Unknown	Unknown

**The Office of Program Integrity Unit focuses on program investigations through tips submitted through hotlines and other means, this unit does not perform subrecipient monitoring unless there is an investigation into the subrecipient. The August 2015 organizational chart for DHS did not list positions individually for the Office of Program Integrity; therefore, we could not determine how many positions were vacant at that time. We were able to confirm that the Director of Program Integrity position remains vacant, approximately 10 months (May 2015-March 2016).*

We also observed during our fieldwork that the department continues to experience high program staff turnover, which raises concerns about the department's ability to properly administer the food programs. More specifically, leadership of the food programs has changed in each of the past three years. When turnover among program staff and leadership occurs, the department has to constantly train new employees to ensure they have sufficient knowledge to administer the program and spend federal funds in accordance with federal regulations. In addition, management has not developed comprehensive written policies and procedures to ensure both departmental staff and sponsoring organizations administer the programs in accordance with federal requirements. Because of the numerous federal requirements (which range from the most basic to the more complex requirements), the department's leadership and program management must develop sufficient policies, procedures, and monitoring tools to ensure they meet federal requirements as they achieve program objectives. In addition, departmental leadership and program management must ensure that all staff and sponsors are adequately trained. Staffing levels should be adequate to properly administer the federal programs and provide technical assistance to those who provide the meals to eligible children and adults. As noted in findings 2015-022, 2015-023, and 2015-031, subrecipients stated that they have not received adequate training from the department's program staff on program requirements. See findings 2015-022, 2015-023, and 2015-031 for details.

The inherently risky design of these federal programs (as described in our prior findings and management's comments) creates opportunities for subrecipients' noncompliance with federal requirements, either intentionally (fraud) or unintentionally (errors). Without sufficient preventive and detection controls the department is unlikely to identify the subrecipients' errors or fraud. Specifically, we believe that the department's risk of noncompliance, fraud, waste, and abuse is heightened by the lack of sufficient program leadership and staff; the lack of preventive controls in the TFP system; the lack of detection controls, including monitoring activities designed to search for fraud risk factors; and insufficient staffing levels in EPR, Internal Audit, and the Office of Program Integrity. Without these key controls, the department cannot reasonably ensure that departmental staff or its subrecipients comply with and follow program guidelines while participating in both CACFP and SFSP.

In summary, by failing to address these repeated deficiencies, the department creates additional risks within an already high-risk environment, leading to improper payments and potential program disallowances.

Criteria

The Government Accountability Office *Standards for Internal Control in the Federal Government (Green Book)*, Section 10.04, defines a preventive control as an activity that prevents an entity from failing to achieve an objective or address a risk. Section 10.04 defines a detective control as an activity that discovers when an entity is not achieving its objective or addressing a risk before the entity's process is complete, allowing time for appropriate response and corrective actions.

Section OV3.05 of the *Green Book* states, "A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system."

According the Title 7, CFR, Section 226, Part 7(k), set forth by the USDA:

> *Claims processing.* Each State agency shall establish procedures for institutions to properly submit claims for reimbursement. Such procedures must include State agency edit checks, including but not limited to ensuring that payments are made only for approved meal types and that the number of meals for which reimbursement is provided does not exceed the product of the total enrollment times operating days times approved meal types. . . .

The *Green Book*, Section 9.04, states,

> As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.

The *Green Book*, Section 8.06 - 8.07, states,

> Management analyzes and responds to identified fraud risks so that they are effectively mitigated. Fraud risks are analyzed through the same risk analysis process performed for all identified risks. Management analyzes the identified fraud risks by estimating their significance, both individually and in the aggregate, to assess their effect on achieving the defined objectives. As part of analyzing fraud risk, management also assesses the risk of management override of controls. The oversight body oversees management's assessments of fraud risk and the risk of management override of controls so that they are appropriate.
>
> Management responds to fraud risks through the same risk response process performed for all analyzed risks. Management designs an overall risk response and specific actions for responding to fraud risks. It may be possible to reduce or eliminate certain fraud risks by making changes to the entity's activities and processes. These changes may include stopping or reorganizing certain operations and reallocating roles among personnel to enhance segregation of duties. In addition to responding to fraud risks, management may need to develop further responses to address the risk of management override of controls. Further, when fraud has been detected, the risk assessment process may need to be revised.

According to 7 CFR 226.6(m)(6),

> *Frequency and number of required institution reviews.* The State agency must annually review at least 33.3 percent of all institutions. At least 15 percent of the total number of facility reviews required must be unannounced. The State agency must review institutions according to the following schedule:

> (i) Independent centers and sponsoring organizations of 1 to 100 facilities must be reviewed at least once every three years. A review of such a sponsoring organization must include reviews of 10 percent of the sponsoring organization's facilities;
> (ii) Sponsoring organizations with more than 100 facilities must be reviewed at least once every two years. These reviews must include reviews of 5 percent of the first 1,000 facilities and 2.5 percent of the facilities in excess of 1,000; and
> (iii) New institutions that are sponsoring organizations of five or more facilities must be reviewed within the first 90 days of Program operations.

According to 7 CFR 225.7(d)(2)(ii),

> *Frequency and number of required reviews.* State agencies shall:
>
> (A) Conduct a review of every new sponsor at least once during the first year of operation;
> (B) Annually review a number of sponsors whose program reimbursements, in the aggregate, accounted for at least one-half of the total program meal reimbursements in the State in the prior year;
> (C) Annually review every sponsor which experienced significant operational problems in the prior year;
> (D) Review each sponsor at least once every three years; and
> (E) As part of each sponsor review, conduct reviews of at least 10 percent of each sponsor's sites, or one site, whichever number is greater.

Also, according to Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," Subpart D(d),

> A pass-through entity shall perform the following for the Federal awards it makes: . . . (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Effect

DHS management has not addressed weaknesses in critical functions of the CACFP and SFSP programs noted in the prior findings, which threatens the integrity of the programs. Management did not establish a robust subrecipient monitoring process to address the high-risk nature of the food programs or to specifically identify and increase monitoring activities for high-risk subrecipients. While we recognize that many of the corrective actions may take months, or longer, to implement, until significant progress is made, management cannot ensure that the department or its subrecipients properly administer these federal programs in compliance with the federal requirements. Without sufficient controls and oversight in the future, DHS

- will continue to make improper reimbursements to subrecipients;

- will continue to provide meals to ineligible participants;
- will not detect noncompliance or fraud timely;
- will not collect overpayments to subrecipients; and
- will continue to jeopardize federal funding because of noncompliance.

We are required by OMB Circular A-133 to report on management's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance. We noted material weaknesses and significant deficiencies in internal control over compliance for CACFP and SFSP during fiscal year 2015. Because of the department's noncompliance with the subrecipient monitoring and eligibility requirements, requirements that have a direct and material effect on compliance on each major program, we have qualified our opinion on CACFP.

Recommendation

The Commissioner of the Department of Human Services should ensure that the recommendations in this report are implemented and overpayments to subrecipients are recovered. The Commissioner should analyze and improve the subrecipient monitoring risk assessment process to detect changes in conditions affecting the entity and its environment. Upon detection, the Commissioner should adapt DHS' internal control system to reduce the risk of subrecipient noncompliance noted in this finding such as establishing an effective preventive control to ensure subrecipients' compliance with federal guidelines. Management should analyze the effect of identified changes on the internal control system and respond by revising the internal control system on a timely basis to maintain its effectiveness. If a preventive control cannot be established, then there should be an increased focus on EPR monitoring to ensure it is robust and extensive enough to detect subrecipient noncompliance.

The Commissioner should assess all significant risks, including the risks noted in this finding, in DHS' documented risk assessment. The risk assessment and the mitigating controls should be adequately documented. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We do not concur.

We disagree that the Department has not provided proper oversight of the food programs. The Department has maintained a constant focus on increasing accountability and performance. It is important to note that while State Audit has questioned costs in their findings, it does not mean that the questioned costs are specifically the result of fraud, waste or abuse. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the

Department has a clear and documented audit trail which supports the billing amount. Additionally, if a subrecipient does not adhere to administrative program requirements, there is no expectation to question costs of all funds paid and assess an overclaim. Failure to adhere to administrative program requirements would be noncompliance and an acceptable corrective action would be required.

It is the Department's assertion that oversight is improving, especially since 2011. The following provides several examples of the Department's commitment to proper oversight with a focus on program integrity and program impact.

- Since 2011, the Department conducted 1,186 food program subrecipient monitoring reviews. For the FFY2015 CACFP and the 2015 SFSP, 56% and 100% of the feeding site visits, respectively, were unannounced. For CACFP and SFSP, the Department is following federal criteria to determine subrecipients to monitor.
- Prior to 2011, there was not a focus on internal operations of the food program. The Department was not conducting internal reviews of the food program until 2011.
- The Department has added to the number of audit positions to improve program integrity. Prior to 2011, there were 28 positions in Audit Services. Currently, there are 47 positions in Audit Services. This represents a 70% increase in positions.
- It should be noted that State Audit includes Program Integrity staff as not being sufficient in the finding. We do not agree with this finding as there are four positions vacant of 65 total positions. Additionally, Program Integrity does not have a role in the subrecipient monitoring process.
- For the first time, the Department established annual training requirements for audit staff, with significant portions of the requirements being included in their Individual Performance Plans. An Audit Charter was presented to the audit staff and a new attestation for audit staff to acknowledge their adherence to accountability, responsibility, ethical and professional conduct was implemented. The Department also notified the audit team that the Department will be moving toward a requirement for audit staff to complete the Certified Fraud Examiner's test.
- For the first time, the Department required auditors (accountants) to conduct field visits as part of subrecipient monitoring. Prior to this requirement, the Department's auditors (accountants) did not play an integral role in subrecipient monitoring.
- The Department's previous practice was for food program staff to develop the monitoring plan independent of Audit Services. In 2013, the Department discontinued this practice and required Audit Services to play an integral role in this process.
- The Department's food programs had been operating with outreach materials dating back several years (some older than 10 years) without being updated. In 2012, an internal taskforce was developed to update materials.
- The Department's food programs had a practice of completing corrective action plans on behalf of many sponsors. When this inappropriate practice came to light, the Department disallowed this practice by the program. This was a practice identified

by the Department. It was not identified by State Audit or the Federal partner in multiple reviews they conducted previously.

- Significant Technology Improvements
    - Prior to 2011, the Department of Education presented DHS with a case management solution for the Food program. At that time, DHS declined. In 2013, the Department revisited that decision and began exploring the opportunity. In 2015, we purchased a case management solution. This solution will support the modernization of the Food Programs and improve program integrity through the following features:
        - Core modules to support the food programs including: all aspects of application processing, claim reimbursement requests, payment processing, compliance, and advances as well as USDA required reporting and regulations
        - The project is on schedule
    - Recently approved the procurement of an audit documentation software solution, modernizing the Audit Services process and keeping in line with software also utilized by State Audit.
    - Implemented annual requirement for staff and subrecipients to complete online training for SFSP. Online training for CACFP is in the process of being developed and will be required for staff and subrecipients as part of the FFY2017 program.
    - Implemented interim document scanning solution to assist primarily with the application process. This was implemented to the extent possible within current technology capacities.
    - Implemented low tech IT quick wins such as adding downloadable application documents to the Department's SFSP website for SFSP 2015.
- Talent management: this involves recruiting, developing, and retaining the most talented employees available. It drives agency results when leaders use the right data to align business and people strategies. The talent management process includes feedback from staff. The talent management process also involves hiring supervisors to actively seek candidates with demonstrated abilities to excel in the required position tasks. We have taken the first steps in establishing the competencies needed to effectively administer the food programs.
- Implemented the 4 Disciplines of Execution as outlined by Covey
    - Trained identified program, fiscal, and Audit Services staff in the 4 Disciplines of Execution
    - Implemented a cadence of accountability to ensure fulfillment of the Department plan to maximize food program participation while strengthening program integrity.
- It should be noted that, in 2011, nine employees in the food programs were eligible to retire. As the department increased a focus on accountability and performance, there

were some definite challenges with status quo in spite of the need to make transformative changes. Since 2011, eight of the nine employees eligible to retire, retired. This certainly had implications for the food program operations, primarily as it pertained to the prior common practice for long term employees to retain institutional memory without creating knowledge transfer. In some instances, employees were keeping critical documents on their computer hard drives with no back up of information on the network. In at least one case where this was occurring, one of the computers crashed.

- The program has since gone through the department wide knowledge retention plan, which is the electronic documentation of specific, step-by-step instructions of all key processes. The purpose of the knowledge retention plan is to preserve institutional knowledge and enable successors (or new employees) to meet program goals, and also to maintain key materials on a secured network.

The information laid out above not only reflects the department's oversight; moreover, it reflects the Department's continuous improvement in oversight.

The Department recognizes the possible opportunities for improvement where there may be partial agreement in the State Audit findings. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have a special partnership that includes an initiative focused on the food programs. The key drivers are improving program integrity and improving impact through an effective partnership.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity. The Economic Research Service (ERS) of United States Department of Agriculture (USDA) conducts an ongoing study to assess the prevalence of food insecurity throughout the nation. From years 2011 to 2013, Tennessee was among eight states with food insecurity higher than that of the national average (ERS 2015). More specifically, when surveyed, Tennessee's rate of food insecurity was one of the highest in the nation. Acknowledging the need to increase feeding sites for greater impact, the Department must also account for the inherent risks associated with increased participation. While program integrity will remain a primary focus at both the state and federal level, striking the balance between program integrity and impact presents a constant opportunity for continuous quality improvement.

Food programs across the country represent an area of high vulnerability for fraud, waste, or abuse. This challenge is not unique to Tennessee and is reflected in the history of the program as noted in various national reports. The Department is, once again, providing a comprehensive response to this finding that includes the history of these programs from a national perspective. This will provide overall context and serve to illustrate inherent challenges in both programs as well as the ongoing efforts made by FNS. Since 1966, both the Summer Food Service Program (SFSP) and the Child and Adult Food Care Program (CACFP) have sought to decrease food insecurity across America by providing supplemental meals to children and eligible adults in low-income areas. Funded by the USDA and administered by states, these programs have undergone significant changes at the federal level over the course of their existence due to their vulnerability to fraud, waste or abuse.

Most changes in the food programs have been brought about by numerous pieces of legislation requiring more rigorous forms of monitoring and oversight from states in an effort to decrease the frequency of defrauding the programs. However, many of these changes have led to unintended consequences with regard to participation in the program. Most significantly, between 1981 and 1982, when sponsor criteria excluded nonprofit/private agencies in an effort to decrease fraud, participation rates were greatly reduced (by 500,000 participants). Numerous reports from the Government Accountability Office (GAO), USDA Office of Inspector General, etc. indicate the USDA's recognition of the programs' "material weaknesses" and research suggests that opportunities for fraud, waste and abuse are inherently woven into the design of the program. Given the programs' vulnerability, there is a direct positive correlation between an increase or decrease in providers/sponsors and fraud found within the programs (1981 Omnibus Budget Reconciliation Act). In more recent years, state responsibilities associated with oversight and monitoring have increased due to changes in USDA regulatory requirements.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. Unfortunately, for these same reasons, the program lends itself to those with ill intentions. It only takes a few "bad actors" to place the program at risk for many. It is disheartening to know there are individuals who are exploiting a program focused on serving vulnerable children. It is imperative that government (state and federal) ensures that the children don't become the sacrifice.

The Department is committed to transparency and this response is reflective of that commitment. The Department has been in close communication with State Audit and our federal partners regarding the disposition of various aspects of the food programs that create risk by virtue of its design. State Audit does not have a primary focus on reviewing the subrecipients identified in the Department's monitoring plan.

The Department of Human Services strives to operate with program integrity, while at the same time, adhering to the mission of both programs, which seeks to continuously increase participation and provide meals to children in low-income areas. The Department will continue on the course of working to increase the number of Tennessee children and vulnerable adults who are served while working to ensure good fiscal stewardship. The Department will continue to seek operational guidance from the USDA while maintaining momentum in realizing the mission of both programs.

As part of the Department's commitment to continuous quality improvement (CQI), a historical review of the program over several years will continue. To date, this process has identified a level of congruence between the findings identified by the Department through their monitoring efforts, State Audit in this report, and issues identified in national reports. However, as noted previously, there were some years when State Audit didn't review the program or reviewed the program and it yielded no findings. Given the inherent challenges noted in the program since its inception, it's unlikely that any review would yield no issues. The increased focus by the Department and State Audit will likely continue to yield similar results. It is expected that most opportunities for improvement will be compliance issues that require correction rather than an issue related to questioned costs. However, there will be questioned costs in some cases due to the nature of the program. It will be important for State Audit and the Department to work closely together when there is a lack of clarity regarding actual program requirements. During this audit period, State Audit directed program staff to prove that subrecipients had registered with the Secretary of State as required per their interpretation. Program staff proceeded with following State Audit's directives and advised subrecipients that they need to be registered with the Secretary of State. The information provided was not completely accurate, as there is no requirement that all CACFP subrecipients register with the Secretary of State since there are many exceptions that could apply to subrecipients. Once Department management learned of the counsel provided by State Audit that all CACFP subrecipients must register with the Secretary of State it was determined that this counsel was based on an incorrect interpretation and State Audit subsequently dropped the issue. This is just one example where better communication and working together to ensure clarity is beneficial, as this could have resulted in a faulty conclusion of questioned costs, if the Department had not conducted more due diligence. It might be beneficial for the Department and State Audit to consider a joint strategy given this reality.

There is, understandably, an increased interest in the food programs in Tennessee. This is especially good given the issue of child hunger in the state. There remains the opportunity for anyone in the state, in an official capacity or as an invested individual, to weigh in on the Child Nutrition Act Reauthorization - Improving Child Nutrition Integrity and Access Act of 2016 that is up in Congress for reauthorization. Everyone has the ability to weigh in on concerns related to regulation that may adversely impact the program participation and integrity.

In 2015, the Department kicked off the No Tennessee Child Hungry campaign. Tennesseans have been very responsive. We are pleased to report that, because of this support, an increase of more than 150,000 meals was served this past summer to Tennessee children. We encourage those who want to lend their support to email us at NoHungryTennesseeChild.DHS@tn.gov.

Auditor's Comment

As evidenced by our numerous findings, DHS management did not provide proper oversight of the food programs.

We discussed all issues noted during the audit with DHS management to ensure the accuracy of our information; however, we did not direct DHS management to advise subrecipients to register with the Secretary of State.

Finding Number	2015-022
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Questioned Costs	$13,688
Repeat Finding	N/A

The Department of Human Services has not established proper internal controls to ensure subrecipient agencies correctly calculated meal reimbursement claims, resulting in known federal questioned costs of $13,688

The Child and Adult Care Food Program is a year-round program funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for the Child and Adult Care Food Program, the department is responsible for ensuring that subrecipients are eligible to participate in the program and that the subrecipients comply with federal requirements. Subrecipients provide meals and supplements to eligible participants. To receive payment, subrecipients submit meal reimbursement claims to the Department of Human Services through the Tennessee Food Program's online application. Management of the department is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. Because management does not review supporting documentation for meal reimbursement claims before issuing payments to the subrecipients, management must rely on its External Program Review (EPR) to ensure subrecipients comply with federal program requirements and spend grant funds accordingly.

Condition

We selected five Child and Adult Care Food Program subrecipients from a population of 537 subrecipients based upon high-risk factors identified in previous audits and the total expenditures subrecipients claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we assessed the risk of the subrecipients and found the following

- 161 subrecipients for which the department had released a monitoring report that contained findings during state fiscal year 2015;
- 38 subrecipients for which the department had released a monitoring report that did not contain findings during state fiscal year 2015; and

- 333 subrecipients for which the department did not release a monitoring report during state fiscal year 2015.

We then selected a nonstatistical, random sample of 25 subrecipients, with a proportionate amount from each of the categories above. At each of the 30 subrecipients, we reviewed 2 meal reimbursement claims for a total sample of 60 subrecipient claims tested.[27] We found that the department had not established proper internal controls, as discussed in finding 2015-021; therefore, the department had not ensured that subrecipients complied with federal program requirements, resulting in improper billings and federal questioned costs.

Initial Testwork

Based on our testwork and as noted in prior audits, the department relied on the subrecipient to correctly calculate and submit accurate meal reimbursement claims. As such, the department does not have preventative controls to analyze or identify subrecipients that have submitted inaccurate or fraudulent claims. We found that the department reimbursed subrecipients for more meals than can be supported by the subrecipients' documentation, and, based on the subrecipients' documentation, the department did not always reimburse the total amount due to the subrecipients. Specifically, we noted that

- for 14 of 60 meal reimbursement claims tested (23%), 11 subrecipients did not request reimbursement for all documented meals served; and
- for 13 of 60 meal reimbursement claims tested (22%), 10 subrecipients submitted meal reimbursement claims for more meals served than the subrecipient had documentation to support.

In other words, for 27 of the 60 claims we tested (45%), the department reimbursed subrecipients based on inaccurate meal reimbursement claims.

Expanded Testwork

Based on our original testwork results, we expanded our testwork to review in greater detail 2 of the 30 subrecipients that had multiple reimbursement claim errors. We found specifically that Subrecipient 2 did not maintain adequate attendance records to support the two meal reimbursement claims tested. Subrecipient 11 did not ensure that its meal tracking software system retained adequate supporting documentation for the meal reimbursement claims. Because of the nature of the errors found at these two subrecipients, we expanded our testwork to test two additional claims for these subrecipients to determine if the errors were pervasive.[28]

[27] To select the 60 claims, we determined whether EPR's reviews included a month during state fiscal year 2015. For those subrecipients, we reviewed the same month as EPR, as well as an additional, haphazardly selected month during state fiscal year 2015. For subrecipients that the department had not monitored in state fiscal year 2015, we reviewed two haphazardly selected months during our audit period.

[28] For the additional testwork, we haphazardly selected two additional meal reimbursement claims for the subrecipients, making an additional sample of four claims.

Based upon our expanded testwork, we also found the same errors as in our original sample. Specifically, we noted for all four additional meal reimbursement claims tested (100%), the subrecipients submitted meal reimbursement claims for more than they had documentation to support, resulting in overpayments to those subrecipients.

<u>Effectiveness of External Program Review Monitoring Efforts</u>

Given the fact that the department has to rely on the subrecipients to bill accurately for meals it serves to eligible participants (insufficient preventative controls), the department has established the External Program Review (EPR) process as its only control for determining the accuracy of the claims received from subrecipients. Since EPR is a control that occurs long after the department has reimbursed the claim, the department may not detect an overpayment or underpayment until several months after the payment, if it detects the claim at all.

To determine whether EPR monitors identified the same deficiencies in their monitoring visits, we reviewed the monitors' reports for the subrecipients in our sample when those reports were available. Specifically, we found that EPR had reviewed 9 of the 60 meal reimbursement claims we had selected and reviewed. For seven of the nine meal reimbursement claims, EPR appropriately noted that the subrecipients did not maintain accurate supporting documentation for the meal reimbursement claims and requested corrective action. EPR did not note any problems or deficiencies for the other two claims. On four of the nine claims (44%) reviewed by EPR, we found additional errors not reported by EPR. For two of the claims, EPR did not ensure amounts on the claims added correctly. For the third claim, the monitors did not disallow 3,037 meals and supplements claimed for ineligible adults (see finding 2015-023). For the fourth claim, even though the monitors found an error for duplicate participants and correctly reclassified the participants to remove the duplication, EPR did not question the duplicate meals the subrecipient claimed or require repayment. For further issues related to EPR, see finding 2015-021.

In summary, based on our review of the EPR process, we found that the process was not sufficient to address the fact that the department continues to reimburse subrecipients for claims that were submitted in error. As noted in prior audits and in the department's own monitoring reports, subrecipients cannot be relied upon to submit accurate claims for reimbursement.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We determined that, even after repeat findings related to this federal award, management did not ensure the department's annual risk assessment included the risks associated with subrecipients not submitting accurate meal reimbursement claims.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 10(c),

> Claims for Reimbursement shall report information in accordance with the financial management system established by the State agency, and in sufficient

detail to justify the reimbursement claimed and to enable the State agency to provide the final Report of the Child and Adult Care Food Program (FNS 44) required under §226.7(d). In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim.

Cause

Based upon discussion with management, the department does not require the subrecipient to provide supporting documentation for each meal reimbursement claim before payment, and normally reviews only a very small sample of claims during a monitoring visit. We discussed the issues presented within this finding to DHS management. Based upon this discussion, the Interim Director of Community Services stated this is a potential problem, but policies do not need to be developed or revised to address it. The Interim Director of Community Services stated that it is possible that subrecipients did not have proper procedures in place to retain documentation to support meal reimbursement claims these subrecipients. Based on our testwork, EPR monitors did not always adequately assess the extent of subrecipients' errors and did not ensure subrecipients had proper procedures in place to retain documentation. See finding 2015-021 for other causes of the issues discussed in this finding. We also discussed the cause of the issues with the subrecipients; see below.

Cause - Subrecipients Who Underbilled

Based on discussion with the subrecipients, they provided three reasons why the subrecipients failed to bill all supportable Child and Adult Care Food Program costs. See Table 1 below.

Table 1
Reasons Meal Reimbursement Claims Were Underbilled

<table>
<tr><th>Reasons</th><th>Subrecipient</th><th>Number of Incorrect Meal Reimbursement Claims in Our Testwork</th></tr>
<tr><td rowspan="2">Reason A:
Subrecipients stated that a lack of understanding due to a lack of training on how to document a meal reimbursement claim caused the miscalculation.</td><td>Subrecipient 1</td><td>2 of 2</td></tr>
<tr><td>Subrecipient 2</td><td>1 of 2</td></tr>
<tr><td rowspan="2">Reason B:
Subrecipients stated that a system error caused the miscalculation.</td><td>Subrecipient 3</td><td>1 of 2</td></tr>
<tr><td>Subrecipient 4</td><td>2 of 2</td></tr>
</table>

Reason C: Subrecipients stated that calculations were incorrect because of human error.	Subrecipient 5	1 of 2
	Subrecipient 6	1 of 2
	Subrecipient 7	2 of 2
	Subrecipient 8	1 of 2
	Subrecipient 9	1 of 2
	Subrecipient 10	1 of 2
	Subrecipient 11	1 of 2
	Total Errors	**14 of 14**

Cause - Subrecipients Who Overbilled

Based on discussion, subrecipients provided two reasons why they requested meal reimbursement claims for more costs than they had documentation to support. See Table 2 below.

Table 2
Reasons Meal Reimbursement Claims were Overbilled

Reasons	Subrecipient	Number of Incorrect Meal Reimbursement Claim in Our Testwork
Reason A: Subrecipients stated that a lack of understanding due to a lack of training on how to document a meal reimbursement claim caused the miscalculation.	Subrecipient 2	1 of 2
	Subrecipient 12	2 of 2
Reason B: Subrecipients stated that calculations were incorrect because of human error.	Subrecipient 5	1 of 2
	Subrecipient 8	1 of 2
	Subrecipient 9	1 of 2
	Subrecipient 10	1 of 2
	Subrecipient 13	2 of 2
	Subrecipient 14	2 of 2
	Subrecipient 15	1 of 2
	Subrecipient 16	1 of 2
	Total Errors	**13 of 13**

Cause - Expanded Testwork

For two of the four additional subrecipient meal reimbursement claims tested, Subrecipient 2 stated that they did not understand the proper procedures for documenting a meal reimbursement claim due to a lack of training. For the other two additional claims tested, we noted Subrecipient 11's system error were also the cause of errors in the additional claims tested.

Cause - External Program Review Deficiencies

When we discussed with the Interim Inspector General the claim errors that we had identified but External Program Review (EPR) had not noted in its reports, he could not provide a reason why the EPR monitors did not find the extent of problems we noted in our testwork. The Interim Inspector General indicated that the monitors may have overlooked the errors during their review. Based on our review of monitoring working papers, we noted that it appeared EPR monitors and supervisors focused on following the review guide checklist. Therefore, the monitoring and supervisory review would be limited to analyzing problems found during a site visit and not necessarily ensuring the monitoring activities' ability to detect subrecipients' control and compliance deficiencies, potential fraud risks, or the pervasiveness of the deficiencies identified in the limited analysis.

Effect

Failure to mitigate the risk of overreliance on subrecipients to correctly submit meal claims increases the likelihood of the department processing and paying incorrect meal reimbursement claims. Because the department does not have a preventative control to determine the accuracy of a subrecipient's claims for meal reimbursement, management is at an increased risk of either over- or under-reimbursing subrecipients for meal reimbursement claims. Overpayments to subrecipients are a direct violation of federal regulations, while underpayments may affect the department's ability to administer the program through its subrecipients. Furthermore, the lack of sufficient detection controls through monitoring increases the risk of noncompliance with Child and Adult Care Food Program requirements at all levels.

Questioned Costs

For the errors noted above, we found that the department overpaid the organizations $13,688. See Table 4 for details by subrecipient.

Table 3
Summary of Questioned Costs

Subrecipient	Unsupported Meal Reimbursement Claim	Expanded Testwork	Total
Subrecipient 1	-	-	-
Subrecipient 2	$8,107	$2,348	$10,455
Subrecipient 3	-	-	-
Subrecipient 4	-	-	-
Subrecipient 5	-	-	-
Subrecipient 6	-	-	-
Subrecipient 7	-	-	-
Subrecipient 8	$9	-	$9
Subrecipient 9	$68	-	$68
Subrecipient 10	$11	-	$11
Subrecipient 11	-	-	-

Subrecipient 12	$2,653	-	$2,653
Subrecipient 13	-	-	-
Subrecipient 14	$377	-	$377
Subrecipient 15	-	-	-
Subrecipient 16	$115	-	$115
Total Questioned Costs	**$11,340**	**$2,348**	**$13,688**

Our testwork included a review of 60 meal reimbursement claims totaling $1,745,090, and an expanded review of four additional meal reimbursement claims totaling $78,012, from a population of 537 subrecipients' meal reimbursement claims, totaling $65,220,125, during fiscal year 2015. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

<u>Recommendation</u>

To reduce the risk of improper payments (either over- or under-reimbursing subrecipients due to error or fraud), the Commissioner should ensure the Interim Director of Community Services establishes a preventative control to ensure the accuracy of subrecipients' meal reimbursement claims before the department remits payments. If the department cannot establish a preventative control, in order to recoup the federal funds and address any fraud risks timely, the department should increase its focus on EPR monitoring to ensure it is robust and extensive enough to detect when a subrecipient was paid in error. To increase the likelihood of detecting overpayments, EPR monitors should expand their monitoring activities when they find claim errors during their limited reviews. These expanded activities should include analytical tools to identify claim errors or anomalies. When expanded monitoring activities identify pervasive compliance and control deficiencies, EPR monitors and program management must take appropriate follow-up action to ensure subrecipients implement correct controls.

Underpayments to subrecipients do not give rise to federal questioned costs; however the department should ensure that subrecipients are not underpaid as this can negatively impact the financial condition of the subrecipients the department relies on to provide meals to eligible individuals.

The Commissioner, the Interim Inspector General, and the Interim Director of Community Services should ensure that the department recovers $13,688 from the subrecipients for the issues noted in the finding.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's annual risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take immediate action if deficiencies occur.

Management's Comment

We do not concur.

The Department does not agree that this is a compliance issue for the Department. However, we do agree that it may be a compliance issue for the subrecipient. The items noted in this finding are under the direct responsibility of the subrecipient (sponsor). The Department does not have direct responsibility to perform these functions. The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount.

The statements "The Interim Director of Community Services stated that it is possible that subrecipients did not have proper procedures in place to retain documentation to support meal reimbursement claim" and "The Interim Inspector General indicated that the monitors may have overlooked the errors during their review" were paraphrases and not quotes. Neither the Interim Director of Community Services nor the Interim Inspector General were commenting on subrecipients as a whole but only with regard to a few specific subrecipients that State Audit was referring to at the time.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that subrecipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most sub-recipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grant funds, DHS management is ultimately responsible for ensuring that subrecipients follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. This finding is the result of management's and sponsors' inadequate internal controls and/or noncompliance with federal regulations.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-023
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	$72,950
Repeat Finding	2014-025

As noted in the prior three audits, the Department of Human Services did not ensure that subrecipients claimed meals only for eligible participants, accurately determined participant eligibility, and maintained complete and accurate eligibility applications and addendums as required by federal regulations, resulting in $72,950 in federal questioned costs

Background

The Child and Adult Care Food Program (CACFP) is a year-round program federally funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring that subrecipients are eligible and comply with federal requirements. Because management does not review supporting documentation for meal reimbursement claims before issuing payments to the subrecipients, management must rely on its External Program Review (EPR) to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. To ensure subrecipients' compliance, EPR performs monitoring visits at a subrecipient or feeding site. Monitors follow a department-provided review guide, which is a checklist that covers all federal requirements for the program, including ensuring subrecipients maintained eligibility applications when required and properly determined participants' eligibility.

A subrecipient is referred to as an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is classified as a sponsoring organization. Sponsoring organizations can sponsor either homes (residential) or centers (non-residential). Feeding sites are actual locations where the institutions or sponsoring organizations (subrecipients) serve meals to participants in a supervised setting. Although these subrecipients receive federal cash reimbursement for all meals served, they receive higher levels of reimbursement for meals served to participants who meet the income eligibility criteria published by the USDA's Food and Nutrition Services for meals served free or at a reduced price.

Subrecipients must determine each enrolled participant's eligibility for free and reduced-price meals in order to claim reimbursement for the meals served to that individual at the correct rate. Subrecipients may establish a participant's eligibility using either a household application or proof of participation in another federal program such as Supplemental Nutritional Assistance Program, Temporary Assistance for Needy Families, or Food Distribution Programs on Indian Reservations. Additional federal requirements apply to sponsoring organizations that sponsor child care centers or institutions that operate as independent child care centers, and as such these subrecipients must document in an addendum when and what meals a participant will eat while at the feeding site.

We noted in the most recent prior audit that subrecipients did not maintain complete and accurate eligibility applications and addendums. Management concurred in part with the finding. DHS' ongoing EPR monitoring efforts since the prior audit served as the department's only control to achieve corrective action. During our current testwork, we concluded that these monitoring efforts have still been insufficient to correct the continuing issues related to subrecipients not maintaining complete and accurate eligibility documentation. See Finding 2015-021.

Condition and Criteria

We selected 5 Child and Adult Care Food Program subrecipients from a population of 537 subrecipients based upon high-risk factors identified in previous audits and the total expenditures subrecipients claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we assessed the risk of the subrecipients and found the following:

- 161 subrecipients for which the department had released a monitoring report that contained findings during state fiscal year 2015;
- 38 subrecipients for which the department had released a monitoring report that did not contain findings during state fiscal year 2015; and
- 333 subrecipients for which the department did not release a monitoring report during state fiscal year 2015.

We then selected a nonstatistical, random sample of 25 subrecipients, with a proportionate amount from each of the categories mentioned above. At each of the 30 subrecipients, we reviewed 2 meal reimbursement claims for individual eligibility for a total sample of 60 subrecipient claims tested.[29] Within our sample of 60 claims, we identified 42 claims (representing 21 subrecipients) that were related to independent child care centers and sponsors of child care centers, which were required to maintain eligibility applications and addendums. The remaining 18 claims were related to at-risk afterschool programs, sponsors of homes, and emergency shelters that were not required to maintain eligibility applications and addendums. We tested all 60 claims to ensure the subrecipients correctly determined participants' eligibility and claimed the correct amount for meals served to participants as defined by federal regulations. We noted the following problems.

[29] To select the 60 claims, we determined whether EPR reviewed a month during state fiscal year 2015. For those subrecipients, we reviewed the same month as EPR, as well as an additional, haphazardly selected month during state fiscal year 2015. For subrecipients that the department had not monitored in state fiscal year 2015, we reviewed two haphazardly selected months during our audit period.

Participants Were Not Eligible for Services

From our sample of 30 subrecipients, only one subrecipient, an emergency shelter, claimed meal reimbursements for adults. Based on our testwork, we identified that for 2 of 60 meal reimbursement claims reviewed (3%), the subrecipient claimed meals for adults who did not meet the program's definition of an adult. Based on discussion with Subrecipient 1's Vice President of Domestic Violence, the subrecipient served adults with substance abuse problems in the emergency shelter. Title 7, *Code of Federal Regulations* (CFR), Section 226, Part 2 defines an adult participant for the CACFP program as

> a person enrolled in an adult day care center who is functionally impaired (as defined in this section) or 60 years of age or older.

Page 8 of the USDA's Adult Day Care handbook states,

> Sheltered workshops, vocational or substance abuse rehabilitation centers, and social centers do not qualify as adult day care centers for purposes of CACFP participation, because they are not operated primarily to provide day care to elderly and disabled adults in order to avoid premature institutionalization.

Adults with substance abuse problems do not qualify for the program and are not allowable for reimbursement. Subrecipient 1 claimed 3,037 meals and supplements for the ineligible adults on the two claims we reviewed. We have reported these questioned costs in conjunction with another finding and have not duplicated those costs in this finding. Specifically, we questioned $2,653 of costs related to the ineligible meals and supplements in Finding 2015-022. In addition, we also questioned $47,989 related to this subrecipient in Finding 2015-025 because program staff could not provide the form used to document the subrecipient's eligibility to participate in the program.

Subrecipients Did Not Maintain Eligibility Applications

Based on testwork performed, we noted that for 7 of 42 meal claim reimbursements, 5 subrecipients of the 21 subrecipients tested (Subrecipients 2, 3, 4, 5, and 6) did not maintain eligibility applications for 19 participants. 7 CFR 226.10(d) states,

> All records to support the claim shall be retained for a period of three years after the date of submission of the final claim for the fiscal year to which they pertain, except that if audit findings have not been resolved, the records shall be retained beyond the end of the three year period as long as may be required for the resolution of the issues raised by the audit. All accounts and records pertaining to the Program shall be made available, upon request, to representatives of the State agency, of the Department, and of the U.S. Government Accountability Office for audit or review, at a reasonable time and place.

In addition, 7 CFR 226.15(e)(2) states,

> For child care centers, such documentation of enrollment [applications] must be updated annually, signed by a parent or legal guardian, and include information on each child’s normal days and hours of care and the meals normally received while in care.

Since the subrecipients did not maintain current applications, we reclassified the participants’ eligibility category to “paid” and questioned the difference. The questioned costs for Subrecipient 6 are included in the conditions below. The errors noted for Subrecipient 5 resulted in an under-claim so no costs were questioned. The questioned costs for Subrecipient 2 totaling $116, are included in Finding 2015-022. The questioned costs for the remaining two subrecipients (3 and 4), totaling $68,179, are included in Finding 2015-025.

<u>Subrecipients Did Not Maintain Properly Completed Applications and Addendums</u>

Based on testwork performed on the 42 meal reimbursement claims, we found the following errors:

a. For 9 of 42 claims reviewed (21%), 7 subrecipients (Subrecipients 2, 3, 4, 5, 6, 7, and 8) did not maintain current eligibility application addendums for 22 participants.
b. For 9 of 42 claims reviewed (21%), 6 subrecipients (Subrecipients 5, 6, 7, 8, 10, and 11) did not ensure addendums for 14 participants included the normal days, hours, and/or meals the participant will eat, which is the main purpose of obtaining addendums.
c. For 6 of 42 claims reviewed (14%), 5 subrecipients (Subrecipients 2, 3, 5, 6, and 12) did not document their determination of 123 participants’ eligibility.
d. For 16 of 42 claims reviewed (38%), 8 subrecipients (Subrecipients 2, 5, 6, 7, 8, 9, 10, and 11) did not document on the applications the method they used to determine 290 participants’ eligibility (categorically or income eligible).
e. For 2 of 42 claims reviewed (5%), Subrecipient 6 did not sign and date 72 applications, representing 116 participants.

According to 7 CFR 226.15(e)(2),

> For child care centers, such documentation of enrollment [applications] must be updated annually, signed by a parent or legal guardian, and include information on each child’s normal days and hours of care and the meals normally received while in care.

In addition, the department’s *CACFP Policies and Procedures Manual* states that

> each institution must have an enrollment form for each CACFP participant. The enrollment form must meet the following requirements:
>
> 1. Be updated annually and signed by a parent or guardian of the participant;

2. Identify the "normal" days and hours in care for each enrolled participant; and

3. Identify the meals to be received by each enrolled participant.

Finally, the application for participation states,

> To identify the eligibility classification of the enrolled children identified above, please circle: Free, Reduced-Price or Paid. To identify basis for classification, please circle: Categorically Eligible or Income Eligible.

We did not question costs for the errors noted in items (a) through (d) above because the errors did not negate the participants' eligibility for the program. For errors in item (e) above, we reclassified the participants' eligibility to the "paid" category, which affected the subrecipients' overall eligibility to participate in the program. See the section below.

<u>Subrecipient Did Not Meet the Eligibility Requirement</u>

As noted in item (e) above, Subrecipient 6 did not sign and date all 72 applications, representing 116 participants. Page 20 of the department's *CACFP Policies and Procedures Manual* states,

> All undated Free and Reduced-Price Meal Applications must be reclassified as paid (i.e., not eligible for free and reduced-price meal eligibility.)

Based on testwork performed, we noted that Subrecipient 6, as a for-profit center, did not meet the requirement to maintain a minimum amount of 25% of its participants eligible for either the "free" or "reduced-price" categories. Because the subrecipient provided undated applications, we reclassified 116 participants to the "paid" category, which reduced the subrecipient's total participants enrolled in the "free" or "reduced-price" categories to below the required 25% minimum requirement for the entire audit period. When it did not maintain the 25% requirement, the subrecipient became ineligible to participate in the program. We questioned all payments to Subrecipient 6 for the entire audit period, totaling $72,950.

<u>Subrecipients Did Not Determine a Participant's Eligibility Category Correctly and Used Incorrect Categories When Filing for Claim Reimbursement</u>

Based on testwork, we noted that for 1 of 42 claims reviewed (2%), Subrecipient 12 determined one participant's eligibility category as "paid"; however, based on our review of the application, the subrecipient should have determined the participant's eligibility category as "free."

We also noted that for 1 of 42 claims reviewed, Subrecipient 3 properly determined 4 participants' eligibility categories on the applications; however, Subrecipient 3 did not use the documented eligibility categories when they submitted the claims for reimbursement. These errors resulted in the subrecipient claiming less than it was due; therefore, no costs were questioned related to this improper payment.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. We determined that management, despite repeated audit findings, did not ensure that the department's annual risk assessment included mitigating controls associated with subrecipients meeting eligibility requirements or with maintaining the documentation to support eligibility.

Cause

Based on discussion with Subrecipient 1's Vice President, she was not aware that the emergency shelter's adult participants with substance abuse problems were not eligible for the program. She stated that DHS' program staff told her the adults were eligible for the program and thus eligible for meal reimbursements. The Interim Director of Community Services stated that the department was not aware of the issue and had provided training that would have addressed the requirement. The Interim Director of Community Services relies on EPR to monitor subrecipients to ensure that eligibility determinations are proper and that supporting documentation is maintained. See Finding 2015-021 for the issues we found related to monitoring, staffing, and training for staff and subrecipients.

We asked the department's management and each sponsoring agency why the subrecipients did not maintain applications and addendums. Based on discussion with the DHS' staff, they did not know why the errors occurred at the subrecipient agencies. In addition, we spoke with the subrecipients to obtain their explanations for the application and addendum errors. The errors and explanations provided are noted in Table 1 below.

Table 1
Subrecipients' Reasons for Errors Noted in Eligibility Applications and Addendums

Condition	Cause	Subrecipient
Subrecipients did not maintain eligibility applications and/or addendums.	Subrecipients stated that they had misplaced applications and/or addendums.	Subrecipient 2 Subrecipient 3 Subrecipient 4 Subrecipient 5 Subrecipient 6 Subrecipient 7
	Subrecipients stated that they were unaware applications and addendums should be updated annually.	Subrecipient 2 Subrecipient 4
	Cause unknown.	Subrecipient 8
Subrecipients did not ensure addendums had all the required information.	Subrecipients stated that reviewers overlooked the missing information.	Subrecipient 5 Subrecipient 6 Subrecipient 7 Subrecipient 8 Subrecipient 10 Subrecipient 11
Subrecipients did not document their determination	Subrecipients stated the errors were just an oversight.	Subrecipient 2 Subrecipient 3

Table 1
Subrecipients' Reasons for Errors Noted in Eligibility Applications and Addendums

Condition	Cause	Subrecipient
of participants' eligibility.		Subrecipient 5 Subrecipient 12
	The subrecipient was unaware the determination need to be documented.	Subrecipient 6
Subrecipients did not document the category method.	Subrecipients stated they did not understand the question on the application.	Subrecipient 2 Subrecipient 5 Subrecipient 7 Subrecipient 8 Subrecipient 9 Subrecipient 10 Subrecipient 11
	The subrecipient was unaware the method need to be documented.	Subrecipient 6
The subrecipient did not sign and date applications, causing the agency to fall below the 25% minimum requirement.	The subrecipient was unaware of the requirement to sign and date applications.	Subrecipient 6

For the other conditions noted above, the Director of Subrecipient 12 stated that the incorrect determination of participants' eligibility was a result of human error. In addition, Subrecipient 3's Executive Director stated that the subrecipient's use of incorrect eligibility categories to file claims was unintentional and a mistake.

Effect

When the Interim Director of Community Services does not ensure subrecipients perform required eligibility determinations and maintain proper documentation to support eligibility determinations, the department will improperly reimburse subrecipients for ineligible participants or for participants whose eligibility is unsupported.

Questioned Costs

Based on the results of our testwork, we questioned all reimbursements to Subrecipient 6 for the period July 1, 2014, through June 30, 2015, totaling $72,950. All other questioned costs discussed in this finding were appropriately reported in other findings as referenced above. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner and the Interim Director of Community Services should ensure all subrecipients are properly trained and understand how to accurately determine and document participants' eligibility. Subrecipients should accurately determine participants' eligibility, and should complete and maintain applications and application addendums for all participants. The Interim Director of Community Services should ensure all subrecipient agencies fully complete the "For Institution Use Only" box on all eligibility applications. In addition, management should identify and establish controls to mitigate all risks related to the issues noted in this finding on management's risk assessment.

Management's Comment

We do not concur.

The Department does not agree that this is a compliance issue for the Department. However, we do agree it may be a compliance issue for the subrecipient. The items noted in this finding are under the direct responsibility of the subrecipient (sponsor). The Department does not have direct responsibility to perform these functions. The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that sub-recipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grant funds, DHS management is ultimately responsible for ensuring that subrecipients follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. This finding is the result of management's and sponsors' inadequate internal controls and/or noncompliance with federal regulations.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. We questioned costs because the expenditures were not supported by adequate documentation.

Finding Number	2015-024
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
Questioned Costs	$5,756
Repeat Finding	N/A

The Department of Human Services did not ensure supporting documentation for meal reimbursement claims was maintained when a subrecipient closed and also reimbursed a subrecipient for unapproved feeding sites, resulting in $5,756 of federal questioned costs

Background

The Child and Adult Care Food Program (CACFP) is a year-round program federally funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring that subrecipients are eligible and comply with federal requirements. An at-risk afterschool care center is a public or private nonprofit organization that participates in the CACFP to provide child care to children after school through an approved afterschool care program located in an eligible area. An at-risk afterschool care center can be responsible for multiple feeding sites. Feeding sites are actual locations where the institution or at-risk afterschool care center serves meals to participants in a supervised setting. Although these subrecipients receive federal cash reimbursement for all meals served, they receive higher levels of reimbursement for meals served to participants who meet the income eligibility criteria published by the USDA's Food and Nutrition Services for meals served free or at reduced price.

Subrecipients must determine each enrolled participant's eligibility for free and reduced-price meals in order to claim reimbursement for the meals served to that individual at the higher rate. Subrecipients may establish a participant's eligibility using either a household application or proof of participation in another federal program, such as Supplemental Nutritional Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Programs on Indian Reservations (FDPIR).

Condition and Criteria A. The Department Did Not Obtain a Closed Subrecipient's Supporting Documentation

We selected five CACFP subrecipients from a population of 537 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we first sorted the subrecipients into the following categories:

- 161 subrecipients for which the department had released a monitoring report that contained findings during state fiscal year 2015;
- 38 subrecipients for which the department had released a monitoring report that did not contain findings during state fiscal year 2015; and
- 333 subrecipients for which the department did not release a monitoring report during state fiscal year 2015.

We then selected a nonstatistical, random sample of 25 subrecipients, with a proportionate amount from each of the categories mentioned above. At each of the 30 subrecipients, we reviewed 2 meal reimbursement claims for a total sample of 60 subrecipient claims tested.[30]

In an attempt to perform a site visit for Subrecipient 1 in September 2015, we determined that the subrecipient closed and left the program without informing the department's program staff. The last meal reimbursement claim the department paid to the subrecipient was for September 2014. According to the Interim Director of Community Services, DHS program staff was not aware the subrecipient had closed and did not have the opportunity to obtain supporting documentation for meal reimbursement claims. Because DHS did not have the supporting documentation available for our review, we questioned all amounts paid to the subrecipient during fiscal year 2015, totaling $5,756.

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section10 (d),

> All records to support the claim shall be retained for a period of three years after the date of submission of the final claim for the fiscal year to which they pertain, except that if audit findings have not been resolved, the records shall be retained beyond the end of the three year period as long as may be required for the resolution of the issues raised by the audit. All accounts and records pertaining to the Program shall be made available, upon request, to representatives of the State agency, of the Department, and of the U.S. Government Accountability Office for audit or review, at a reasonable time and place.

In June 2014, DHS management sent a memo to all subrecipients informing the subrecipients to notify the department if they close their operations so the department could arrange to obtain the documentation.

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[30] To select these claims, we determined whether External Program Review's (EPR) reviews included a month during state fiscal year 2015. For those subrecipients, we reviewed the same month as EPR, as well as an additional, haphazardly selected month during state fiscal year 2015. We reviewed two haphazardly selected months during our audit period for subrecipients that the department had not monitored in state fiscal year 2015.

Condition and Criteria B. Unapproved Feeding Sites

Within our sample of 60, we found that 34 claims were for either sponsoring organizations or at-risk after school care programs which are administratively responsible for more than one feeding site. DHS must approve the at-risk after school care program's feeding sites before the subrecipient can claim meal reimbursement for meals served at the feeding sites. Based on our testwork, we noted that the department paid this at-risk after school care program (Subrecipient 2) $26,106 for a claim that included seven feeding sites the department had not approved to serve meals. The subrecipient apparently added feeding sites and did not inform the department timely. As a result, program staff did not identify unapproved feeding sites before paying the claim. As noted in Finding 2015-025, program staff's eligibility determination for subrecipients were not properly supported by documentation and the subrecipients should not have been approved to operate the program, including this at-risk after school care program. In Finding 2015-025 we questioned all costs totaling $243,154 paid to this at-risk after school care program during federal year 2015 based on unsupported eligibility determinations, and thus we will not question costs related to this condition (unapproved feeding sites) in this finding.

According to Title 7, CFR, Part 226, Section 11(a),

> Payments must be made only to institutions operating under an agreement with the State agency for the meal types specified in the agreement served at approved child care centers, at-risk afterschool care centers, adult day care centers, emergency shelters, and outside-school-hours care centers.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. Despite repeated findings related to this federal program, we determined that management did not ensure that the department's annual risk assessment included mitigating controls to ensure subrecipients meet eligibility requirements or maintain the documentation to support eligibility.

Cause

Based on discussion with the Interim Director of Community Services, the subrecipient was responsible for informing the department when they close. The Interim Director of Community Services was not aware that the subrecipient claimed meals served at the unapproved feeding site. The subrecipient's director submitted a request to add the feeding sites to the approved list after the department had already paid the claim. The Tennessee Food Program (TFP) information system is not sufficiently designed to assist management in analyzing meals at the feeding site level by allowing the subrecipients to enter meals served by feeding site. See finding 2015-021 for additional details.

Effect

While the department does send a memo to remind subrecipients of their obligation to inform the department within 30 days of closure, if the subrecipient does not report as requested, the department faces an increased risk of reimbursing subrecipients for claims submitted for periods when the subrecipient was not actually in operation. In addition, if the department does not obtain and retain the subrecipients' documentation after closure, the department will not meet federal record retention requirements.

When the Interim Director of Community Services does not ensure feeding sites are approved before reimbursing subrecipients, the department faces increased risk that subrecipients will be reimbursed for ineligible meals. Also, without sufficient preventative controls within the TFP system, after-reimbursement monitoring efforts would be the only way to find the subrecipients' claim errors.

Questioned Costs

Based on the results of our samples, we questioned costs totaling $5,756 for reimbursements to Subrecipient 1 for lack of documentation to support the claims for reimbursement. This finding, in conjunction with Finding 2015-025 (which also included federal questioned costs for the federal compliance requirement Eligibility), results in total known questioned costs exceeding $10,000 for a type of compliance requirement for a federal program.

For the purpose of questioned costs analysis, our testwork included a review of a nonstatistical, random sample of 60 meal reimbursement claims, totaling $1,745,090, from a population of 537 subrecipients' earned meal reimbursement claims, totaling $65,220,125, during fiscal year 2015. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

We recommend the Commissioner and the Interim Director of Community Services ensure that any requests to add or terminate feeding sites are appropriately documented. Program staff should appropriately document either approval or denial of the request. Also, the Interim Director of Community Services should ensure that claims are not paid without ensuring the claim includes approved feeding sites for the subrecipient only.

Additionally, the Interim Director of Community Services should communicate the necessity of current contact information to all subrecipients through training, monitoring visits, and any other opportunities that arise. All documentation for a closed subrecipient should be obtained and retained at the department for the required three years. The Commissioner and the Interim Director of Community Services should ensure that the department recovers all questioned costs from Subrecipient 1 and Subrecipient 2.

In addition, management should identify and establish controls to mitigate all risks related to the issues noted in this finding on management's risk assessment.

Management's Comment

We concur in part.

Regarding reimbursing a subrecipient for unapproved feeding sites, the Department concurs in part. The subrecipient did not seek pre-approval; however, after being identified, the unapproved sites met the criteria and were approved the following month. It is the Department's policy for Sponsors to receive approval for feeding sites prior to submitting claims for reimbursement. The Department's Audit Services staff will continue to monitor sponsors for compliance with only submitting claims for sites that have been properly approved. The Department is currently implementing new software that will improve this process.

The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount. The Department monitored the subrecipient and issued a monitoring report with questioned costs in May 2014. The recoupment for the questioned costs is in process. State Audit visited the subrecipient in September 2014 and determined the subrecipient had subsequently closed but had not informed the Department. Without additional follow-up, it cannot be concluded that the subrecipient did not feed children from May to September 2014. September 2014 was the last claim submitted by the subrecipient for reimbursement, and they did not participate in the FFY 2015 CACFP.

Additionally, the Department does not agree with State Audit's assertion that supporting documentation for meal reimbursement claims be obtained and maintained by the Department when a subrecipient closes. As cited by State Audit in the finding, Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 10 (d) states "All records to support the claim shall be retained for a period of three years after the date of submission of the final claim for the fiscal year to which they pertain, except that if audit findings have not been resolved, the records shall be retained beyond the end of the three year period as long as may be required for the resolution of the issues raised by the audit. All accounts and records pertaining to the Program shall be made available, upon request, to representatives of the State agency, of the Department, and of the U.S. Government Accountability Office for audit or review, at a reasonable time and place." Based on the last sentence of the citation and guidance from our Federal partners, the Department is not responsible for obtaining and maintaining subrecipient records when a subrecipient closes. The subrecipient is responsible for maintaining the records and making them available upon request.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

Program management was unaware the subrecipient had been reimbursed for unapproved feeding sites until it was brought to their attention in December 2015 when we discussed our audit results with management.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of

federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. We questioned costs because the expenditures were not supported by adequate documentation.

The federal regulations do not specifically state the department is required to obtain supporting documentation. However, the “Notice of closure and release of records” memo DHS management issued to all CACFP participants on June 3, 2014, states that, prior to closing, “DHS will need to obtain copies of all records pertaining to CACFP reimbursements for the previous three fiscal years plus the current fiscal year.”

Finding Number	2015-025
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Material Weakness Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$10,768,519
Repeat Finding	2014-026

As noted in the prior audit, the Department of Human Services had inadequate internal controls over subrecipient eligibility determination, resulting in federal questioned costs of $10,768,519

Background

The Child and Adult Care Food Program (CACFP) is a year-round program funded by the U.S. Department of Agriculture (USDA) and is administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring subrecipients are eligible for the program and comply with federal requirements. Federal application procedures help determine the eligibility of institutions applying to the program. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization.

DHS determines subrecipients' eligibility annually based on the federal fiscal year, October 1 through September 30. To participate in CACFP, each subrecipient sends an application, along with supporting documentation such as their budget, to the department for approval. For federal fiscal year 2015, program staff reviewed over 500 potential subrecipients.

Description of the Current Process

DHS program staff are responsible for performing a review of all applications from subrecipients who wish to participate in CACFP. These applications include both new applicants and renewing subrecipients. When assigned an application to review, a program staff employee uses a CACFP Application Review Worksheet (an internally developed checklist to help ensure that the applicant submitted required documents and meets federal subrecipient eligibility requirements). The employee also documents his or her approval of the subrecipient's eligibility to participate in the CACFP on this worksheet. Currently, the department's process does not include a supervisory review of the eligibility determination process to ensure the application reviewer made the correct eligibility determination.

Condition and Criteria A. Program staff could not substantiate that the application reviewer verified subrecipient eligibility requirements

To determine if department staff properly determined subrecipients' eligibility, we selected a sample of 5 CACFP subrecipients from a population of 537 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we first sorted the subrecipients into the following categories:

- 161 subrecipients for which the department had released a monitoring report that contained findings during state fiscal year 2015;
- 38 subrecipients for which the department had released a monitoring report that did not contain findings during state fiscal year 2015; and
- 333 subrecipients for which the department did not release a monitoring report during state fiscal year 2015.

We then selected a nonstatistical, random sample of 55 subrecipients, with a proportionate amount from each of the categories mentioned above, and reviewed the subrecipients' files, which are maintained at the department.

Based on testwork performed on the subrecipient eligibility determination process, we found that program staff could not provide evidence that the application reviewer verified that the subrecipients met all the federal eligibility requirements to participate in the program. We noted the following issues.

Lack of Nonprofit Documentation

From our sample, we determined that 33 of the 60 subrecipients applied as nonprofit organizations, meaning they must have tax-exempt status under the Internal Revenue Code of 1986 to be eligible to participate in the program. According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 15(a),

> Except for for-profit centers and sponsoring organizations of such centers, institutions must be public, or have tax exempt status under the Internal Revenue Code of 1986.

Nonprofits must substantiate their tax-exempt status with a certificate of exemption. We found that program staff did not maintain these certificates in 4 of 33 subrecipient files (12%).

Nonprofit organizations also must have an active and independent board of directors. According to Title 7, CFR, Part 226, Sections 6(b)(1) and (2), new and renewing subrecipients must document that they meet the following criteria:

> [Have] adequate oversight of the Program by an independent governing board of directors as defined at Section 226.2.

7 CFR 226.2 states,

> *Independent governing board of directors* means, in the case of a nonprofit organization, or in the case of a for-profit institution required to have a board of directors, a governing board which meets regularly and has the authority to hire and fire the institution's executive director.

We found that program staff did not obtain and/or maintain documentation to prove they verified that 25 of 33 nonprofit subrecipients (76%) had active and independent boards of directors. Program staff also failed to obtain and/or maintain both board meeting minutes and conflict-of-interest disclosures signed by each member of the board of directors, as required.

We questioned costs[31] totaling $9,487,414 because program staff did not maintain evidence to prove the subrecipients met the eligibility requirement to participate as a nonprofit organization.

Contracted Monitoring Activities

Of our sample, we identified that 15 of the 60 subrecipients applied as sponsoring organizations. As part of the eligibility determination process, program staff must review the subrecipient's management plan to determine whether the subrecipient has employed staff to perform feeding site monitoring activities. We noted that the program staff did not ensure that 3 of 15 sponsors (20%) used their own employees to perform feeding site monitoring; in fact, the subrecipients contracted out the monitoring review process, which is in violation of federal regulations.

According to 7 CFR 226.16(b)(1),

> As part of its management plan, a sponsoring organization of day care homes must document that, to perform monitoring, it will employ the equivalent of one full-time staff person for each 50 to 150 day care homes it sponsors. As part of its management plan, a sponsoring organization of centers must document that, to perform monitoring, it will employ the equivalent of one full-time staff person for each 25 to 150 centers it sponsors. It is the State agency's responsibility to determine the appropriate level of staffing for monitoring for each sponsoring organization, consistent with these specified ranges and factors that the State agency will use to determine the appropriate level of monitoring staff for each sponsor.

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[31] Since the department approves subrecipient eligibility for the federal fiscal year (October 1 through September 30), any questioned costs mentioned in this finding is for the period October 1, 2014, through June 30, 2015 (the end of state fiscal year 2015).

We were able to identify $5,256 that the subrecipient paid for contracted monitoring, which is in noncompliance with the monitoring requirement.[32] This amount is included in questioned costs related to media releases below.

Media Releases

Of the 60 subrecipients we reviewed, 59[33] were required to submit media releases to publicly announce the services the subrecipient offered. We noted that program staff could not provide evidence that they verified 10 of 59 subrecipients (17%) issued media releases and had nondiscrimination policy statements when applicable.

7 CFR 226.6(b)(1) states the following regarding new institutions:

> *(iii) Nondiscrimination statement*. Institutions must submit their nondiscrimination policy statement and a media release.

According to 7 CFR 226.6(f)(1), renewing institutions must "[r]equire each institution to issue a media release."

We questioned costs totaling $1,002,183 because program staff did not maintain evidence to prove the subrecipients met the eligibility requirement to issue media releases.

Evidence of Adequate Supervisory and Operational Personnel

According to 7 CFR 226.15(d), "Each institution shall provide adequate supervisory and operational personnel for management and monitoring of the Program." In order to fulfill this requirement, subrecipients must submit a copy of their child care license to operate. For 1 of 60 subrecipients tested (2%), program staff could not provide evidence that they verified that the subrecipient had submitted a copy of their license to operate. We questioned $8,961 because program staff did not maintain evidence to prove the subrecipient met the eligibility requirement for adequate personnel.

At-risk Afterschool Programs

In our sample we identified that 8 of the 60 subrecipients claimed to operate at-risk afterschool programs. According to 7 CFR 226.17a(b)(1), an at-risk afterschool program must

> *(ii)* Have organized, regularly scheduled activities (i.e. in a structured and supervised environment). . . .*(iii)* include education or enrichment activities.

[32] We questioned costs based on budgeted expenditures for contracted monitors as identified on Subrecipient 1's budget. This budget was approved by the department. We questioned all costs for this subrecipient for lacking a media release. We could not verify that these were all the costs related to contracted monitoring for Subrecipient 1. For the remaining two subrecipients, we could not determine the amount spent on contracted monitoring but found that the subrecipient listed contract monitors as subrecipient personnel. We questioned costs if we could determine the funds were used for contracted monitoring.

[33] One of the subrecipients was an emergency shelter for domestic violence victims and is not required to submit a media release; therefore, we tested 59 subrecipients that were required to submit media releases.

However, we noted that program staff could not provide evidence that they verified that two of these eight subrecipients (25%) actually had plans to provide federally required, organized, regular scheduled activities, as well as education or enrichment activities. The subrecipients' files did not include documentation of the activities the subrecipients planned to provide.

We questioned $267,776 because program staff did not maintain evidence to prove the subrecipient met the eligibility requirement to provide the federally required activities.

Missing Subrecipient Budget

Regarding renewing institutions, 7 CFR 226.6(b)(2) states,

> *(vii)(A)(3) Budgets*. Costs in the renewing institution's budget must be necessary, reasonable, allowable, and appropriately documented.

Program staff did not ensure 1 of 60 subrecipients reviewed (2%) had submitted a budget to show the subrecipient's estimation of need to operate the program.

We questioned $2,184 because program staff did not maintain evidence to prove the subrecipient had submitted a budget to meet the eligibility requirement.

Condition and Criteria B. Insufficient subrecipient eligibility review process

As evidenced by the deficiencies noted in Condition A above, the department has not established a sufficient application review process to ensure program staff properly determine and document the eligibility determinations for new and renewing subrecipients as required by federal regulations. Specially, management relies on one employee to review the application supporting documentation and make the eligibility determination and does not review the employee's work to ensure the application review process is based on sufficient documentation and federal requirements.

In addition to the missing information in the subrecipients' files noted above, program staff did not always follow the department's established procedures for subrecipient eligibility determinations. Program staff could not provide a CACFP Application Review Worksheet for one subrecipient. Based on our review, program staff prepared a worksheet for each of the remaining subrecipients; however, we noted that program staff indicated on the worksheet that there were no errors with the applications, even though applications were incomplete and were not supported by all the required documentation. We also noted that program staff did not always answer all the determination questions/categories on the worksheet.

As stated in the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), best practices include providing guidance to management on the need for monitoring the effectiveness of their control activities. According to Principle 16, "Perform Monitoring Activities," pages 65-66,

> **16.05** Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of

> operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

In addition, according to federal regulations, the department must establish application procedures to determine eligibility of new or renewing applications. According to 7 CFR 226.6(b),

> *(1) Application Procedures for new institutions*. Each State agency must establish application procedures to determine the eligibility of new institutions under this part. . . . In addition, the State agency's application review procedures must ensure that the following information is included in a new institution's application:
> (i) *Participant eligibility information* . . .
> (ii) *Enrollment information* . . .
> (iii) *Nondiscrimination statement* . . .
> (iv) *Management plan* . . .
> (v) *Budget* . . .
> (vi) *Documentation of licensing/approval* . . .
> (vii) *Documentation of tax-exempt status* . . .
> (viii) *At-risk afterschool care centers* . . .
> (ix) *Documentation of for-profit center eligibility* . . .
> (x) *Preference for commodities/cash-in-lieu of commodities* . . .
> (xi) *Providing benefits to unserved facilities or participants* . . .
> (xii) *Presence on the National disqualified list* . . .
> (xiii) *Ineligibility for other publicly funded programs* . . .
> (xiv) *Information on criminal convictions* . . .
> (xv) *Certification of truth of applications and submission of names and addresses* . . .
> (xvi) *Outside employment policy* . . .
> (xvii) *Bond* . . .
> (xviii) *Compliance with performance standards* . . .
>
> *(2) Application procedures for renewing institutions.* Each State agency must establish application procedures to determine the eligibility of renewing institutions under this part. . . . In addition, the State agency's application review procedures must ensure that the following information is included in a renewing institution's application:
>
> (i) *Management plan* . . .
> (ii) *Presence on the National disqualified list* . . .
> (iii) *Ineligibility for other publicly funded programs* . . .
> (iv) *Information on criminal convictions* . . .
> (v) *Certification of truth of applications and submission of names and addresses* . . .
> (vi) *Outside employment policy* . . .

(vii) *Compliance with performance standards*.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment. Despite repeated findings related to this federal program, we determined that management still did not ensure that the department's annual risk assessment included mitigating controls to ensure subrecipients meet eligibility requirements.

Cause

The Interim Director of Community Services did not ensure that the subrecipient eligibility determination process was adequate. Management did not ensure that there were enough CACFP staff to review eligibility determinations made by program employees and to ensure those determinations were based upon documented evidence in accordance with the federal regulations. When we asked why program staff did not obtain and maintain sufficient documentation in the subrecipients' files, the Interim Director of Community Services stated that the review process is not mandated or required by the *Code of Federal Regulations*. However, as stated above, federal regulations require the department to establish an application review process to ensure the subrecipient's eligibility is properly determined. See Finding 2015-021 for more details on written procedures, staffing levels, and training.

As evidenced by the deficiencies noted above, the department's current process, which does not include supervisory reviews of the eligibility determinations performed, was not sufficient to ensure subrecipient eligibility was properly determined and adequately documented. In some instances, the department acquired the evidence from the subrecipients after we brought it to the program staff's attention.

Effect

Because management has created a process that involves a single program employee performing the eligibility determination and approving the subrecipient's new or renewal application, CACFP management has no control in place to ensure eligibility determinations are properly made and adequately documented. Without a sufficient process, program employees will continue to approve applications for subrecipients to participate in the program even if the federal eligibility requirements have not been met or properly documented. When the department's CACFP staff violates federal requirements for eligibility determinations of subrecipients, it jeopardizes future federal grant awards.

Questioned Costs

We questioned costs totaling $10,768,519 for the conditions noted above. See a summary of the known questioned costs below in Table 1.

Table 1
Summary of Known Questioned Costs

Condition	Questioned Costs
Lack of nonprofit documentation	$9,487,414
Contracted monitoring activities	-
Missing media releases documentation	$1,002,183*
Missing evidence of adequate supervisory and operational personnel	$8,961
Missing at-risk afterschool programs documentation	$267,776
Missing subrecipient budget	$2,184
Total	**$10,768,519**

Source: Determined based on information obtained from the Tennessee Food Program System, the department's food program system.
*This amount includes the $5,256 amount questioned for contracted monitoring activities; to avoid duplication, we reported the costs in only one category.

Our testwork included a review of 60 CACFP subrecipients that received meal reimbursement claims totaling $12,152,671 for the period October 1, 2014, through June 30, 2015 (from the month of approval through the state fiscal year-end) from a population of 537 subrecipients whose meal reimbursement claims totaled $47,036,245 for the same period. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program. According to the circular, an auditor questions costs

> (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
> (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
> (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Interim Director of Community Services should ensure that program staff perform more than one level of review for all new and renewal applications and retain all eligibility documentation in the department's subrecipient files. In addition, the Interim Director should ensure that program staff properly determine eligibility and document the results of the subrecipients' eligibility determination on the prescribed worksheets prior to approving subrecipients to participate in the program. The Commissioner or Assistant Commissioner should oversee the process to ensure the Interim Director of Community Services makes these corrections to the review process.

In addition, management should reassess management's risk assessment to ensure controls are properly designed in order to mitigate all risks related to the issues noted in this finding and should document the mitigating controls in management's risk assessment.

Management's Comment

We concur in part.

The Department does not agree with the questioned cost. The amounts questioned were paid for services and activities that the subrecipients rendered to children and families in accordance with the contractual agreements with the subrecipients to assist with administering the Child and Adult Care Food Program (CACFP). State Audit questioned costs based on procedural matters not based on whether children and families received the CACFP benefits.

State Audit is questioning costs paid to a public State University and State Community College within the Tennessee Board of Regents, which are not subrecipients, according to the Office of Management and Budget guidance. However, the State University and State Community College mentioned in the finding have an independent board and all meeting minutes are public information and can be found at https://www.tbr.edu/december-2015-quarterly-board-meeting. It should be noted that maintaining documents of the board meeting schedule and minutes, and board members' conflict of interest statements is the responsibility of the subrecipients. Per federal guidance, these documents may be reviewed during the State's monitoring review of the subrecipient. However, the Department is not required to maintain the documents in the State's subrecipient files.

A missing tax exempt form is not sufficient evidence to conclude the subrecipients are not federally tax exempt and, therefore, may not result in questioned costs.

State Audit is also questioning costs related to subrecipient media releases. Per federal guidance, if a subrecipient did not issue a media release, there is no expectation to question costs of all funds paid and assess an overclaim. Failure to issue a media release would be noncompliance and an acceptable corrective action would be required.

The Department does not agree that the other issues noted in this finding are a compliance issue for the Department. However, we do agree there may be a compliance issue for the subrecipient (sponsor) as they are under the direct responsibility of the subrecipient. The Department does not have direct responsibility to perform these functions.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that subrecipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

Subrecipient eligibility determinations are a direct responsibility of DHS management, not a compliance issue for the subrecipient. According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. Federal regulations require the department to determine an entity's eligibility before approving the entity to operate in the program. We were unable to determine if management made the proper eligibility determinations, because they could not provide documentation supporting subrecipient eligibility. Therefore, we questioned the costs.

Although State Universities and Community Colleges are not subrecipients of the state, the department has treated these institutions as eligible CACFP institutions. Therefore, federal regulations require the department to determine eligibility and maintain documentation of eligibility determinations for State Universities and Community Colleges, just as it would for any subrecipient/CACFP institution. Furthermore, questioned cost for these institutions amounted to $76,456 (0.7% of the total questioned amount in the finding) because management did not maintain documentation.

Finding Number	2015-026
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	2014-024

As noted in the prior audit, the Department of Human Services did not ensure sponsoring organizations performed adequate monitoring of their feeding sites

Background

The Child and Adult Care Food Program (CACFP) is a year-round program that is federally funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, the department is responsible for ensuring that subrecipients are eligible for and comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is classified as a sponsoring organization. Sponsoring organizations can sponsor either homes (residential) or centers (non-residential). Feeding sites are actual locations where the sponsoring organization's subrecipients serve meals to participants in a supervised setting. To monitor a feeding site, DHS provides sponsoring organizations a CACFP Sponsor Review Guide to assist the sponsoring organization in monitoring their own feeding sites and ensure those sites comply with federal regulations. The most current review guide was effective and available to sponsoring organizations as of September 2014.

Condition

We selected 5 CACFP subrecipients from a population of 537 subrecipients, based upon high risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we first sorted the subrecipients into the following categories:

- 161 subrecipients for which the department had released a monitoring report that contained findings during state fiscal year 2015,
- 38 subrecipients for which the department had released a monitoring report that did not contain findings during state fiscal year 2015, and
- 333 subrecipients for which the department did not release a monitoring report during state fiscal year 2015.

We then selected a nonstatistical, random sample of 55 subrecipients, using a proportionate amount from each of the categories mentioned above, and reviewed the department's eligibility determination for the subrecipient. Of the 60 subrecipients in our sample, 15 subrecipients were sponsoring organizations.

Based on our testwork, we noted that 15 of 15 (100%) sponsoring organizations used an outdated version (in some cases outdated for several years) of the CACFP Review Guide to monitor their feeding site. To see the version used by each sponsoring organization, see Table 1 below.

Table 1
Outdated Sponsor Review Guides Used by Sponsoring Organizations

CACFP Review Guide	Sponsoring Organizations
December 2004	Subrecipient 7*
July 2005	Subrecipient 6
June 2008	Subrecipient 5
October 2010	Subrecipient 2 Subrecipient 3*
July 2012	Subrecipient 1 Subrecipient 3* Subrecipient 4 Subrecipient 7* Subrecipient 8 Subrecipient 10 Subrecipient 11 Subrecipient 12 Subrecipient 13 Subrecipient 14 Subrecipient 15
September 2013	Subrecipient 9

* We reviewed two feeding sites per sponsor, and this sponsor used a different version of the review guide for each feeding site tested, neither of which was the correct version.

In addition, we noted the following deficiencies (with overlapping deficiencies at some sponsors):

- 5 of 15 (33%) sponsoring organizations did not reconcile the feeding sites' meal counts with enrollment and attendance records for a five-day period;
- 5 of 15 (33%) sponsoring organizations did not assess the feeding sites to ensure compliance with meal pattern requirements;
- 6 of 15 (40%) sponsoring organizations did not assess the feeding sites to ensure they had obtained the proper licensing or approval to operate;
- 6 of 15 (40%) sponsoring organizations did not assess the feeding sites to ensure staff attended required training;

- 5 of 15 (33%) sponsoring organizations did not assess the feeding sites to ensure they documented meal counts;
- 5 of 15 (33%) sponsoring organizations did not assess the feeding sites to ensure they met the program's menu and meal requirements;
- 5 of 15 (33%) sponsoring organizations did not assess the feeding sites to ensure they annually updated enrollment information;
- 10 of 15 (67%) sponsoring organizations did not monitor the feeding sites at least three times a year;
- 9 of 15 (60%) sponsoring organizations did not perform at least two unannounced monitoring reviews of the feeding sites;
- 7 of 15 (47%) sponsoring organizations did not perform at least one unannounced monitoring review that included an observation of a meal service; and
- 7 of 15 (47%) sponsoring organizations allowed more than six months to lapse between monitoring reviews.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We determined that the department's annual risk assessment did not include the risks addressed in this finding.

<u>Criteria</u>

Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 16(d)(4)(i), requires sponsors to reconcile meal records and to cover the following review elements:

> *Review elements*. Reviews that assess whether the facility corrected problems noted on the previous review(s), a reconciliation of the facility's meal counts with enrollment and attendance records for a five-day period . . . and an assessment of the facility's compliance with the Program requirements pertaining to:
>
> (A) The meal pattern;
> (B) Licensing or approval;
> (C) Attendance at training;
> (D) Meal counts;
> (E) Menu and meal records; and
> (F) The annual updating and content of enrollment forms. . . .
>
> (ii) *Reconciliation of meal counts.* Reviews must examine the meal counts recorded by the facility for five consecutive days during the current and/or prior claiming period.

Sponsors are required to regularly monitor their feeding sites, as stated in 7 CFR 226.16(d)(4)(iii):

> *Frequency and type of required facility reviews.* Sponsoring organizations must review each facility three times each year, except as described in paragraph (d)(4)(iv) of this section. In addition:

(A) At least two of the three reviews must be unannounced;
(B) At least one unannounced review must include observation of a meal service;
(C) At least one review must be made during each new facility's first four weeks of Program operations; and
(D) Not more than six months may elapse between reviews.

Cause

Based on the number and type of errors found in our testwork, the department program staff did not properly train sponsoring organizations on how to monitor their feeding sites. In addition, the sponsoring organizations used outdated versions of the CACFP Review Guide, resulting in ineffective monitoring and noncompliance at feeding sites. For further details on issues related to the subrecipient monitoring process see Finding 2015-021.

Effect

When the Interim Director of Community Services does not ensure that the sponsoring organizations comply with federal requirements and program guidelines to fulfill responsibilities for monitoring of the feeding sites, all parties (the department, the sponsor, and the feeding sites) have failed to meet federal requirements, increasing the possibility of federal disallowances.

Recommendation

The Commissioner should ensure that the Interim Director of Community Services develops and implements adequate training to ensure sponsoring organizations understand how to comply with federal requirements to monitor their feeding sites, as required in the *Code of Federal Regulations*. Sponsoring organizations should also be made aware of the proper form to use to document the monitoring. The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We do not concur.

The Department does not agree that this is a compliance issue for the Department. However, we do agree it may be a compliance issue for the subrecipient. The items noted in this finding are under the direct responsibility of the subrecipient (sponsor). The Department does not have direct responsibility to perform these functions.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements.

The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that subrecipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grant funds, DHS management is ultimately responsible for ensuring that subrecipients follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. This finding is the result of management's and sponsors' inadequate internal controls and/or noncompliance with federal regulations.

Finding Number	2015-027
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2011 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services' Child and Adult Care Food Program staff did not document their review of the National Disqualification List

Background

The Child and Adult Care Food Program (CACFP) is a year-round program funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services (DHS). As a pass-through entity, the department is responsible for ensuring subrecipients are eligible for the program and comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization.

To participate in CACFP, each subrecipient sends an application along with supporting documentation[34] to the department for approval. Subrecipients or their principals who have violated program requirements and have been terminated from operation of the program are placed on the National Disqualified List (NDL) and are barred from operating in the program. Management designed their internal control structure so that during the subrecipient application process, program staff verify that none of the subrecipients or their principals appear on the NDL. Program staff record their verification on the department's tracking spreadsheet.

Condition

We selected five Child and Adult Care Food Program subrecipients from a population of 537 subrecipients based upon high risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2015. To test the remaining population of 532 CACFP subrecipients, we first sorted the subrecipients into the following categories:

- 161 Subrecipients for which the Department of Human Services had released a monitoring report that contained findings during state fiscal year 2015;
- 38 Subrecipients for which the Department of Human Services had released a monitoring report that did not contain findings during state fiscal year 2015; and

[34] For example, the subrecipient's budget.

- 333 Subrecipients the Department of Human Services did not release a monitoring report for during state fiscal year 2015.

We then selected a non-statistical, random sample of 55 subrecipients proportionately from each of the categories mentioned above and reviewed the department's eligibility determination for the subrecipient for a total sample of 60 subrecipients. Based on our testwork, we noted that CACFP staff did not document their verification that 15 of 60 subrecipients or their principals (25%) were not on the NDL. We found the following:

- Program staff listed 5 of the 15 subrecipients on the department's tracking spreadsheet but did not document that they had performed the verification.
- Program staff omitted the remaining 10 subrecipients from the tracking spreadsheet entirely; therefore, we could not determine what actions (if any) staff had taken to verify that the subrecipients were not on the NDL prior to approving those subrecipients to operate in the program.

Even though the department approved the subrecipients' applications without verifying or maintaining the documentation of the verification for subrecipients' status, we confirmed that none of the subrecipients we tested appeared on the NDL as disqualified. As a result of our review, we believe the subrecipients were eligible to participate in the program.

Given the problems identified during our fieldwork, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment and determined that management did not include the risks associated with having an insufficient documentation process for NDL verification of subrecipients and their principals.

Criteria

Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 6(b)(1) states for new institutions,

> *(xii) Presence on the National disqualified list.* If an institution or one of its principals is on the National disqualified list and submits and [*sic*] application, the State agency may not approve the application.

According to 7 CFR 226.6(b)(2), for renewing institutions,

> (ii) *Presence on the national disqualified list*. If, during the State's agency review of its application, a renewing institution or one of its principals is determined to be on the National disqualified list, the State agency may not approve the application.

Also the USDA issued memo CACFP 26-2011 on August 18, 2011 that stated,

> Before approving an application for a new and/or renewing institution, SAs [state agencies] must ensure that the institution is not listed on the NDL.

Cause

Management, including the Interim Director of Community Services, told us that they did not know why the problems occurred. For more details on issues found with the department's policies and procedures and staffing see Finding 2015-021. Management stated, however, that the department implemented a new NDL verification procedure in the summer of 2015. We will test the effectiveness of this new procedure during our next audit.

Effect

Without the adequate design and implementation of procedures to ensure program staff verify that subrecipients or their principals are indeed qualified and are not listed on the NDL, the risk increases that the department could contract with those prohibited from participating in the program and improperly provide reimbursements to organizations that are ineligible to participate in the program. Contracting with disqualified subrecipients or principals could result in the loss of federal funds.

Recommendation

The Commissioner should ensure that the Interim Director of Community Services develops and implements adequate procedures to ensure program staff verify that no subrecipients or their principals appear on the NDL before approving those subrecipients to operate in the program.

In addition, management should identify and establish controls to mitigate all risks related to the issues noted in this finding on management's risk assessment.

Management's Comment

We do not concur.

As part of the CACFP application approval process, the Department requires Child Nutrition Program staff to check the National Disqualified List (NDL) to ensure that no sponsor has been disqualified from participating in the CACFP. However, according to federal regulations (i.e., Title 7 CFR 226 (b)), maintaining documentation to ensure the NDL was checked is not a requirement. It is important to note that none of the sponsors identified in the finding were on the NDL and all were eligible to participate in the CACFP.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

Without documentation, we could not determine if the department verified whether subrecipients were included on the NDL. According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-028
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Questioned Costs	$14,527
Repeat Finding	N/A

The Department of Human Services did not perform basic monitoring activities or consider potential fraud risks for one subrecipient, resulting in federal questioned costs of $14,527

Background

The Department of Human Services operates the Child and Adult Care Food Program (CACFP) in partnership with the U.S. Department of Agriculture (USDA). The department contracts with subrecipients for administration over CACFP and for the delivery of meals to eligible participants. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization. Sponsoring organizations can either sponsor homes (residential) or centers (non-residential) that operate as feeding sites for eligible participants. The department reimburses the subrecipients to cover the administrative costs and costs of meals served. Because the department is a pass-through entity of federal funds to subrecipients, management of the department is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal award in compliance with federal requirements. Management relies on its External Program Review (EPR) to perform monitoring to ensure subrecipients comply with federal program requirements.

Condition

Based on our review, we determined the department's EPR staff still have not adequately performed the basic monitoring activities and have not developed enhanced subrecipient monitoring activities to identify high-risk subrecipients. Thus, EPR and program staff failed to recognize basic subrecipient deficiencies or to consider expanded review techniques to detect noncompliance, fraud, waste, and/or abuse by high-risk entities. As a result, management continued to reimburse a subrecipient when fraud risk indicators were present. We reviewed EPR's monitoring reports for this subrecipient dated November 4, 2014, and August 27, 2014. The EPR monitor performed routine monitoring activities based on their monitoring tool and cited findings, which required corrective action and repayment of $5,428. While these monitoring efforts met minimum requirements, we believe the monitor failed to recognize fraud risks that were clearly evident.

This subrecipient, a nonprofit sponsoring organization that provides administration of the program to its feeding sites, was responsible for oversight of 267 homes and 23 centers operating feeding sites as of June 30, 2015. Based on work performed for the period October 1, 2012, through June 30, 2015, we found that the subrecipient had requested and was reimbursed by the department for unauthorized CACFP expenditures in state fiscal years 2012-2015. (See Table 1 below.) More specifically, we found that the EPR monitor and department program staff did not thoroughly compare the subrecipient's actual expenditures with amounts approved on the annual budget, did not appropriately review claims for reimbursement, did not search for board of director conflicts of interest, and did not ensure that the subrecipient's monitors were employees rather than contracted personnel as required by federal regulations. As a result, the subrecipient performed the following without the department's knowledge or approval:

a) disbursed non-budgeted amounts including renovations, lease payments, loan payments, employee reimbursements, employee disbursements, and other miscellaneous expenses, and the lease payments and personal loans to employees did not have specific prior written approval as required for less-than-arm's-length transactions;
b) had a conflict of interest because a member of the board of directors worked as a sales representative for a vendor that entered into lease agreements with the subrecipient; and
c) failed to hire staff to monitor the homes and centers that were under the subrecipient's administrative and fiscal responsibility.

While all of these unauthorized costs totaling $181,135 are questionable, and should be recovered, the current Single Audit covers the period July 1, 2014, through June 30, 2015. To fulfill our reporting responsibilities for the questioned costs, we have questioned $14,257 for our audit period. Specifically, we found program staff and EPR did not sufficiently fulfill monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient met federal regulations. Table 1 below provides details of the nature of unauthorized disbursements claimed by the subrecipient for reimbursement and paid by the department for the period October 1, 2012, through June 30, 2015.

Table 1
Unauthorized Disbursements for the Period October 1, 2012, Through June 30, 2015

	State Fiscal Years			
	2013	**2014**	**2015**	**Total**
Total	**$84,147**	**$82,461**	**$14,527**	**$181,135**

These matters were brought to our attention during our review and were referred to our office's Financial and Compliance Investigations section. The results of this investigation will be presented in a separate report.

Given the problems identified during our fieldwork, and in prior audit findings, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the department's annual risk assessment included the risks or mitigating controls associated with EPR not sufficiently monitoring subrecipients' activities.

Criteria

a) According to the USDA's *Guidance for Management Plans and Budgets, A Child and Adult Care Food Program Handbook*, Part 2(A)(5),

> The following are examples of unallowable costs: . . . Costs that are not approved in the CACFP budget or a budget amendment. . . .

In addition, Title 7, *Code of Federal Regulations*, Part 226, Section 7(g), states,

> The State agency must review institution budgets and must limit allowable administrative claims by each sponsoring organization to the administrative costs approved in its budget. . . .

According to the USDA's *Guidance for Management*, Part 2(A)4,

> Some costs require specific prior written approval by both the State agency and [Food and Nutrition Services (FNS)]. An example . . . includes those transactions that 'lack independence', such as those between related parties. This can include those who are related by blood, family, business and legal relationships. These are called less-than-arms-length transactions, and all less-than-arms-length expenditures require the State agency's written approval of each specific instance, as well as FNS's approval.

b) According to the USDA's *Guidance for Management*, Part 1(B),

> An acceptable Board consists of a majority of the members whose livelihood is independent from and who holds no personal fiscal interest in the institution's activities and who are not related to each other or to its personnel.

c) The *CACFP Policies and Procedures Manual* states,

> All participating institutions must accept final administrative and responsibility for their CACFP operations. A CACFP institution cannot contract out functions such as monitoring, corrective action and preparation of application materials. . . .

The U.S. Government Accountability Office *Standards for Internal Control in the Federal Government* (the *Green Book)*, Section OV3.05, states, "A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system."

The *Green Book*, Section 9.04, states,

> As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.

The *Green Book*, Section 8.06 - 8.07, states,

> Management analyzes and responds to identified fraud risks so that they are effectively mitigated. Fraud risks are analyzed through the same risk analysis process performed for all identified risks. Management analyzes the identified fraud risks by estimating their significance, both individually and in the aggregate, to assess their effect on achieving the defined objectives. As part of analyzing fraud risk, management also assesses the risk of management override of controls. The oversight body oversees management's assessments of fraud risk and the risk of management override of controls so that they are appropriate.
>
> Management responds to fraud risks through the same risk response process performed for all analyzed risks. Management designs an overall risk response and specific actions for responding to fraud risks. It may be possible to reduce or eliminate certain fraud risks by making changes to the entity's activities and processes. These changes may include stopping or reorganizing certain operations and reallocating roles among personnel to enhance segregation of duties. In addition to responding to fraud risks, management may need to develop further responses to address the risk of management override of controls. Further, when fraud has been detected, the risk assessment process may need to be revised.

<u>Cause</u>

The department did not have sufficient preventive and detective controls such as an adequate process which included comparing total expenditures to the subrecipient's budget, reviewing the appropriateness of the subrecipient's disbursements, ensuring the board of directors does not have any conflicts of interest, and ensuring subrecipient monitors are not contractors. For details on the insufficient monitoring process, see finding 2015-021.

Effect

As a pass-through entity for CACFP, the department is responsible for ensuring subrecipients comply with federal and state requirements. Because the department failed to adequately monitor the activities of this subrecipient by performing the basic monitoring reviews and by expanding testwork when issues were noted, they failed to identify and investigate the potential fraud risks related to expenditures for non-budgeted amounts. As a result, DHS reimbursed the subrecipient $181,135 in unauthorized and questionable expenses over the period October 1, 2012, through June 30, 2015.

Known Questioned Costs

We identified known questioned costs totaling $14,527 for fiscal year ended June 30, 2015. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner of the Department of Human Services should ensure program staff and external program monitors implement a plan to verify that subrecipients follow federal and state regulations. This plan should include a proper and thorough review to ensure subrecipients spent funds properly authorized by the budget and submit accurate subrecipient meal reimbursement claims. Monitors should also ensure that board members do not have conflicts of interest and that subrecipient management has not contracted for the monitoring function.

In addition, management should identify all risks related to the issues noted in this finding in management's risk assessment and establish controls to mitigate the risks.

Management's Comment

We concur in part.

The Department does not agree that basic monitoring activities were not performed.

The Department's current monitoring/audit guides and standard monitoring/audit procedures include reviewing for the items noted above.

The Department's action to date regarding the subrecipient identified in this finding:

- The Department performed monitoring reviews (homes and centers) in 2014.
- In December 2014, the Department obtained an independent auditor's report indicating the subrecipient had overclaimed for meal reimbursement, resulting in overpayments. The Department entered into a repayment plan with the recipient to collect overpayments. The Department does not have authority to immediately terminate a subrecipient based on overpayments.

- The subrecipient self-reported mismanagement of funds by an executive member of its management team to the Department.
- The subrecipient applied over 30 days past the application due date to participate in the CACFP program for FFY 2016. Based on budget information submitted with their application and alleged mismanagement, the Department determined the subrecipient was not financially viable.
- Based on guidance from our Federal partner, the subrecipient was allowed to continue participating in the program until they were issued a Serious Deficiency notice and afforded due process.
- The Department issued a notice of Serious Deficiency to the agency in December 2015 and demanded remittal of all funds owed.
- The subrecipient did not adequately address the Serious Deficiency.
- February 2016, the subrecipient has voluntarily terminated from the program, effective March 31, 2016.

Please see finding 2015-021 for our full response to the Food Program findings.

Finding Number	2015-029
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945 and 2015IN109945
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Questioned Costs	FY 2015 - $70,421 FY 2016 - $13,459
Repeat Finding	N/A

The Department of Human Services did not recognize fraud risk indicators through its routine monitoring efforts, resulting in federal questioned costs of $70,421 for one subrecipient

Background

The Department of Human Services operates the Child and Adult Care Food Program (CACFP) in partnership with the U.S. Department of Agriculture. As a pass-through entity for CACFP, the department is responsible for ensuring subrecipients are eligible to participate in the program and comply with federal requirements. The department contracts with subrecipients, who deliver meals and supplements to eligible participants. To receive payment, subrecipients submit meal reimbursement claims to the department through the Tennessee Food Program's online application. Department management is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. Management relies on its External Program Review (EPR) to ensure subrecipients comply with federal program requirements and submit accurate meal claim reimbursement requests to the department.

Condition

Based on our review, we determined that the department still has not developed enhanced subrecipient monitoring activities to identify high-risk subrecipients; therefore, neither the EPR nor program staff have performed expanded review techniques to detect noncompliance, fraud, waste, and/or abuse by these high-risk entities. As a result, management continued to reimburse a subrecipient when fraud risk indicators were present. We reviewed the most recent EPR monitoring report for this subrecipient, dated March 3, 2015. The EPR monitor performed routine monitoring activities based on their monitoring tool and cited findings that required corrective action and repayment of $487. We believe the EPR monitor failed to recognize fraud risks that were clearly evident. Specifically, we found that program staff and EPR did not identify the following deficiencies:

a) the subrecipient provided falsified and/or insufficient documentation for meal reimbursement claims;

b) the subrecipient was unable to support its operating costs with adequate documentation, including bank statements, food purchase receipts, collection receipts, and proof of collection deposits; and

c) the subrecipient did not have adequate menus for meals served, nor did they post the menus as required by federal regulations.

These matters were brought to our attention during our review and were referred to our office's Financial and Compliance Investigations section. The results of this investigation will be presented in a separate report.

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the department's November 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the department's annual risk assessment included the risks or mitigating controls associated with EPR not sufficiently monitoring subrecipients' activities.

<u>Criteria</u>

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 10(c),

> In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim.

According to Title 7, CFR, Part 226, Section 14(a),

> State agencies shall consider claims for reimbursement not payable when an institution fails to comply with the recordkeeping requirements that pertain to records directly supporting claims for reimbursement. Records that directly support claims for reimbursement include, but are not limited to, daily meal counts, menu records, and enrollment and attendance records, as required by §226.15(e).

The CACFP's *Policies and Procedures Manual* states,

> An institution must maintain: . . .
>
> 4. Menus that meet the following requirements:
>
> a. All food components, as required for each type of meal to be served (i.e., breakfast, lunch, supper and supplement), are identified;
>
> b. Each menu accurately lists the food items that are to be served, including any substitutions that are inserted on the menu before the beginning of the meal service;

c. **All food items that are identified on the menus are supported by purchase receipts;** [emphasis in original]

d. The specific date of use is identified, including the day, month and year; and

e. Each menu is posted in a conspicuous place for all parents and guardians to observe.

Section 9.04 of the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) states,

> As part of risk assessment or a similar process, management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system. Changes in conditions affecting the entity and its environment often require changes to the entity's internal control system, as existing controls may not be effective for meeting objectives or addressing risks under changed conditions. Management analyzes the effect of identified changes on the internal control system and responds by revising the internal control system on a timely basis, when necessary, to maintain its effectiveness.

Section 8.06 through 8.07 of the Green Book states,

> 8.06 Management analyzes and responds to identified fraud risks so that they are effectively mitigated. Fraud risks are analyzed through the same risk analysis process performed for all identified risks. Management analyzes the identified fraud risks by estimating their significance, both individually and in the aggregate, to assess their effect on achieving the defined objectives. As part of analyzing fraud risk, management also assesses the risk of management override of controls. The oversight body oversees management's assessments of fraud risk and the risk of management override of controls so that they are appropriate.
>
> 8.07 Management responds to fraud risks through the same risk response process performed for all analyzed risks. Management designs an overall risk response and specific actions for responding to fraud risks. It may be possible to reduce or eliminate certain fraud risks by making changes to the entity's activities and processes. These changes may include stopping or reorganizing certain operations and reallocating roles among personnel to enhance segregation of duties. In addition to responding to fraud risks, management may need to develop further responses to address the risk of management override of controls. Further, when fraud has been detected, the risk assessment process may need to be revised.

Cause

The department did not have sufficient preventative and detective controls, including an adequate subrecipient monitoring process that included reviewing the subrecipients' documentation to support meal reimbursement claims and documentation such as bank statements to support the subrecipients' operating costs. For details on the insufficient monitoring process, see Finding 2015-021.

Effect

As a pass-through entity for CACFP, the department is responsible for ensuring subrecipients comply with federal and state requirements. By not expanding testwork when issues were noted and by not being alert to potential fraud risks such as falsified documentation, the department failed to sufficiently monitor the activities of this subrecipient. As a result, the department reimbursed the subrecipient $83,881 in unauthorized and questionable expenses between July 2014 and September 2015.

Known Questioned Costs

We identified known questioned costs totaling $70,421 for fiscal year 2015. We also found $13,459 of unallowable costs related to fiscal year 2016. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should ensure program staff and EPR monitors implement a subrecipient monitoring plan to verify subrecipients follow federal and state regulations. This plan should include a proper and thorough review to ensure subrecipients maintain sufficient documentation to support meal reimbursement claims, bank statements, collection receipts, and other operating records.

In addition, management should identify all risks related to the issues noted in this finding on management's risk assessment and should establish controls to mitigate the risks.

Management's Comment

We concur in part.

The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount.

Upon further review of the supporting documentation, the Department agrees that a higher level of scrutiny should have been applied by the employee conducting the review. This will be addressed by taking necessary corrective measures with the employee. However, it should be noted that, based on the sites visited by the staff member during their monitoring reviews, the subrecipient had adequate menus for meals served, and the menus were posted as required by federal regulations. Failure to have menus would result in noncompliance and an acceptable corrective action would be required.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. We questioned costs because the expenditures were not supported by adequate documentation.

Finding Number	2015-030
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$25,721
Repeat Finding	N/A

The Department of Human Services did not calculate Summer Food Service Program for Children cash advances consistently and correctly, did not pay cash advances timely, paid cash advances not requested, and paid advances that exceeded calculated estimates and the sponsor's budget, resulting in $25,721 of questioned costs

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, the department is responsible for monitoring subrecipients, known as sponsors, in order to provide reasonable assurance that these subrecipients comply with federal and state requirements. The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements.

Federal reimbursements are based on the number of reimbursable meals served multiplied by operational and administrative reimbursement rates set forth in federal regulations each year. Sponsors have two different levels of administrative rates: self-preparation and vended. Sponsors that are self-preparation, meaning sponsors prepare or assemble their own meals, receive a higher administrative reimbursement rate. Sponsors that are vended, meaning the sponsors contract with a third-party organization that prepares and delivers meals, may receive a lower reimbursement rate.

Sponsors who are approved to participate in SFSP may request cash advance payments for their total program costs, which may be operating costs or administrative costs. Sponsors must separately request cash advances for operating or administrative costs for each month. DHS must determine the amount of cash advances each sponsor will receive based on the sponsors' request and any other available data. The cash advances are to cover any reimbursement the sponsors expect to receive for a month of operations and are deducted from future claims for reimbursement in the Tennessee Food Program information system. If excess funds remain at the end of the program, DHS has indicated it will request the sponsor return the funds when it performs the program close-out procedures in January of the following year.

Sponsors request cash advances by completing the Sponsor Application and submitting the Application for Advanced Funding for June, July, and August. During the SFSP application process, sponsors must submit an operating budget which details the amount the sponsor estimates it will need to operate the program for the entire summer. In order to determine the amount of cash advance each sponsor should receive, the department developed and completed the Cash Advance Worksheet to calculate and document the amount of cash advance for each sponsor.[35]

Condition and Criteria

We tested the entire population of 65 monthly cash advances, consisting of 65 operating advances and 62 administrative advances, made to 41 SFSP sponsors for summer 2015 (May 2015-September 2015). Based on our testwork, we found that DHS SFSP management did not establish a review process to ensure the accuracy of calculations made through the Cash Advance Worksheet. In addition, SFSP management did not establish a review process to ensure the advances were made in accordance with the *Code of Federal Regulations*. Specifically, we noted that the Director of Food Programs[36]

- approved and paid cash advances to sponsors who did not request cash advances, resulting in questioned costs of $25,721;
- did not pay cash advances timely;
- did not calculate cash advances consistently and/or correctly on the Cash Advance Worksheet; and
- approved and paid advances that exceeded not only the amount calculated on the Cash Advance Worksheet but also sponsors' total budgets.

Unrequested Cash Advances Paid

Our testwork disclosed that the Director of Food Programs paid 2 of 65 cash advances (3%) to 2 sponsors even though the sponsors did not request the advances. Although both sponsors requested and received cash advances for June 2015, neither sponsor submitted an Application for Advance Funding for the month of July 2015. The Director paid Sponsor 1 $25,721 and Sponsor 2 $43,580 for the month of July 2015. Based on discussion with Sponsor 1, management did not operate the Summer Food Program during the month of July. Further inquiry revealed that Sponsor 1 did not realize DHS sent the subrecipient an advance payment that month. The entire amount of the advance payment was unaccounted for and found remaining in the sponsor's general fund.

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[35] The Cash Advance Worksheet uses a set formula which factors in the Average Daily Participation from the previous year. The formula also factors in different reimbursement and advance rates applicable to self-preparation or vended sponsors as established in the *Code of Federal Regulations*.

[36] The Director of Food Programs resigned from her position with the Department of Human Services during our audit fieldwork. The Director's last day with the department was July 31, 2015. The Interim Director of Community Services took over job duties assigned to the Director of Food Programs upon her resignation.

We learned from discussions with Sponsor 2 that management operated during July 2015 and the subrecipient's claim for reimbursement was reduced by the advance payment. The claim, however, did not cover the entire cash advance paid, which resulted in funds remaining at the end of the summer 2015 program. Sponsor 2's Supervisor of Food Service stated that the subrecipient was waiting for DHS to request a refund of the remaining unspent funds.

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 9(c),

> At the sponsor's request, State agencies shall make advance payments to sponsors which have executed Program agreements in order to assist these sponsors in meeting operating costs and administrative expenses.

Cash Advances Not Paid Timely

We found that the Director of Food Programs did not pay 18 of 65 monthly cash advances (28%) timely for 17 sponsors. The Director made payments between 3 and 23 days late.

According to 7 CFR 225.9(c),

> Advance payments shall be made by the dates specified in paragraphs (c) (1) and (2) of this section for all other sponsors whose requests are received at least 30 days prior to those dates. Requests received less than 30 days prior to those dates shall be acted upon within 30 days of receipt. . . (1) Operating costs. (i) State agencies shall make advance payments for operating costs by June 1, July 15, and August 15. . . (2) Administrative costs. (i) State agencies shall make advance payments for administrative costs by June 1 and July 15.

Cash Advances Not Calculated Consistently and/or Correctly

Based on our testwork results, the Director of Food Programs did not calculate cash advances on the Cash Advance Worksheet consistently and/or correctly. We noted that the Director of Food Programs calculated the cash advances inconsistently by splitting the Average Daily Participation (ADP) on the Annual Report between two months on some of the Cash Advance Worksheets, while she did not split the ADP between two months on the other worksheets. Inconsistent calculations affected the overall advance each sponsor received. Worksheets calculated by splitting the ADP resulted in lower cash advances to sponsors, while worksheets that did not split the ADP resulted in higher cash advances to sponsors.

Incorrect worksheets identified an ADP for breakfasts, lunches, suppers, and snacks that did not match the ADP on the Annual Report. We also found incorrect worksheets in which the number of proposed days did not match the number of proposed days on the Application for Advanced Funding. See Table 1 below for the number of sponsors with inconsistent and incorrect calculations.

Table 1: Inconsistent and Incorrect Cash Advance Worksheets Involving Average Daily Participation

Variance	Number of Sponsors Affected*	Number of Monthly Cash Advances Affected*
ADP was not split between June and July.	17	28
ADP was split between June and July.	24	37
ADP did not match the Annual Report.	7	12
Number of proposed days did not match the Application for Advanced Funding.	6	9

* A total of 41 sponsors received 65 monthly cash advances during summer 2015. One Cash Advance Worksheet was used for each sponsor to calculate the monthly advance. Some worksheets had more than one inconsistent and/or incorrect calculation; therefore, the number of sponsors and monthly cash advances affected might be included in more than one variance in Table 1.

Furthermore, we noted that the Director miscalculated 4 of 65 operating cash advances (6%) for 3 sponsors and 2 of 62 administrative advances (3%) for 2 sponsors because she used the incorrect reimbursement rates. See Table 2 below for details.

Table 2: Incorrect Calculations Involving Reimbursement Rates

Sponsor	Advance Month	Advance Type	Calculation Error
Sponsor 3	June 2015	Operating	Addition errors.
	July 2015	Operating	
Sponsor 4	July 2015	Operating	The ADP for snacks was listed as the ADP for suppers; estimated reimbursement calculated at the rate for suppers.
		Administrative	
Sponsor 5	June 2015	Operating	Sponsor was self-preparation; department used incorrect vended preparation rates to calculate the advance.
Sponsor 6	June 2015	Administrative	Advance calculated based on 2014 reimbursement rates rather than current rate.

<u>Cash Advances Paid That Exceeded the Sponsors' Total Budgets and the Department's Calculated Estimate of Need</u>

Another deficiency we discovered is that the Director of Food Programs approved and paid 4 of 65 monthly advances (6%) for 3 sponsors that exceeded the approved Sponsor Application budget. See Table 3 below for amounts in excess of the sponsors' budgets.

Table 3: Cash Advances Exceeding Budgets

Sponsor	Month of Advance	Cash Advance Amount*	Sponsors' Budgets**	Amount Advanced Over Budget
Sponsor 4	July 2015	$56,627	$36,150	$20,477
Sponsor 7	June 2015	$56,627	$45,542	$11,085
Sponsor 8	June 2015	$167,884	$124,600	$187,393
	July 2015	$144,109		

Source: *Obtained from Edison, the state's accounting system.
**Obtained from the Sponsor Application.

We also detected that the Director approved and paid 8 of 65 monthly advances (12%) for 8 sponsors that exceeded the department's calculated estimate of the sponsor's need for the program. See Table 4 below for the amounts in excess of the department's estimation of need.

Table 4: Cash Advances Exceeding Calculated Estimate of Need

Sponsor	Month of Advance	Cash Advance Amount*	Calculated Estimate of Need**	Amount Advanced Above Need
Sponsor 1	June 2015	$25,721	$24,490	$1,231
Sponsor 5	June 2015	$216,258	$193,422	$22,836
Sponsor 7	June 2015	$56,627	$26,321	$30,306
Sponsor 9	June 2015	$327,933	$292,293	$35,640
Sponsor 10	June 2015	$272,735	$246,977	$25,758
Sponsor 11	June 2015	$92,644	$86,555	$6,089
Sponsor 12	June 2015	$42,930	$40,813	$2,117
Sponsor 13	June 2015	$423,501	$378,733	$44,768

Source: *Obtained from Edison, the state's accounting system.
**Obtained from Cash Advance Worksheet.

According to 7 CFR 225.9(c)(3),

> When determining the amount of advance payments payable to the sponsor, the State agency shall make the best possible estimate based on the sponsor's request and any other available data. Under no circumstances may the amount of the advance payment for operating or administrative costs exceed the amount estimated by the State agency to be needed by the sponsor to meet operating or administrative costs, respectively.

Given problems identified during our fieldwork, we reviewed DHS's November 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure the risks associated with cash advances were included in the risk assessment.

Cause

The errors we noted occurred because of a lack of management oversight in the cash advance process. Specifically, the Assistant Commissioner of Food Programs did not review Cash Advance Worksheets prior to the department's issuance of the cash advance payments. The Assistant Commissioner relied solely on the Director of Food Programs to calculate and pay all cash advances for the summer 2015 program.

When we discussed the errors with the Interim Director of Community Services, she could not provide a reason why the cash advances were paid to sponsors who did not request them and why the cash advances were calculated inconsistently. She believes the cash advances were paid late because the Director of Food Programs did not have time to complete the requests within the time frame specified in the *Code of Federal Regulations*. She added that some cash advances were paid incorrectly as a result of keying errors. For further details on the department's insufficient staff and employee turnover see Finding 2015-021.

Effect

By not maintaining sufficient review controls over the calculations and payments of cash advances, SFSP management paid advances in violation of federal requirements.

Questioned Costs

As a result of the department paying a cash advance to Sponsor 1, who did not request the advance and did not operate during the advance month, we questioned $25,721.

We did not question costs for Sponsor 2 since a portion of the advance was deducted from the sponsor's claim for that month. The department's practice is to recover excess funds resulting from unused cash advances as required by federal regulations. As of the audit completion date, the department was in the process of recovering the unused advances from sponsors; therefore, we did not question costs for other issues documented in this finding.

Recommendation

The Commissioner of the Department of Human Services, the Interim Director of Community Services, and food program staff should develop strong controls to include reviewing advance calculations and payments to ensure they are in compliance with federal regulations. The Interim Director should also ensure subrecipients request cash advances before making payments. Additionally, management should assess the risk of the errors noted in its formal risk assessment and implement effective controls to mitigate the risks related to improper cash advances.

Management's Comment

We concur in part.

The Department has improved the review and approval process for advanced payments, which resulted in a few items not being paid timely. The Department is committed to reimbursing sponsors timely and is also focused on properly vetting reimbursement requests and will err on the side of appropriateness versus timeliness. There were a few issues with the distribution of advances. It should be noted that the questioned costs noted were recouped.

Some of the advances were approved by a prior employee who is no longer with the Department. This is not a systemic issue and does not represent a significant risk.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food program areas across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. The Department and Food and Nutrition Service (FNS) have continued their partnership initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2015-021 for our full response to the Food Program findings.

Finding Number	2015-031
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles
Questioned Costs	$29,993
Repeat Finding	2014-029, 2014-030, 2014-031

As noted in the prior audit, the Department of Human Services did not ensure that Summer Food Service Program for Children sponsors maintained complete and accurate supporting documentation for meal reimbursement claims and that sponsors claimed meals and received reimbursement payments in accordance with federal guidelines, resulting in $29,993 of questioned costs

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, DHS is responsible for monitoring subrecipients, known as sponsors, in order to provide reasonable assurance that these subrecipients comply with federal and state requirements. The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements.

Sponsors submit claims for reimbursements for eligible meals either through a paper claim or through the Tennessee Food Program (TFP) information system. DHS does not require sponsors to submit supporting documentation when filing claims; however, sponsors are required to maintain all documentation to support their claims and comply with federal guidelines during the meal reimbursement process.

Our testwork included a review of 69 meal reimbursement claims totaling $5,169,840 from the population of 203 SFSP sponsors' meal reimbursement claims totaling $8,726,840 paid during state fiscal year 2015. We composed our testwork sample as follows:

- We selected a nonstatistical, random sample of 60 meal reimbursement claims.
- From our random sample of 60 claims, we identified sponsors that the department's External Program Review (EPR) had monitored.
- We then selected an additional 9 meal reimbursement claims for review that EPR monitored and were not part of our randomly selected sample of 60 claims.

Based on our testwork, we determined that DHS did not maintain adequate internal control procedures over meal reimbursement claims and did not pay meal reimbursements in accordance with federal guidelines. Specifically, we found

1. sponsors did not maintain complete and accurate supporting documentation for meal claims filed with DHS for reimbursement;
2. sponsors claimed unauthorized meal types;
3. sponsors claimed more than the maximum number of allowable meals for individual feeding sites;
4. a sponsor incorrectly accounted for second meals on a reimbursement claim; and
5. the department reimbursed sponsors with incorrect administrative rates.

Additionally, we reviewed DHS' November 2014 Financial Integrity Act Risk Assessment and determined that management listed unallowable costs charged to a federal program as a risk; however, the department—despite prior audit findings—did not mitigate its risk by establishing proper oversight and preventive/detective controls for the errors noted in each condition of this repeat finding.

Condition

Lack of Supporting Documentation

Our testwork revealed that for 20 of 69 reimbursement claims tested (29%), staff did not ensure 16 sponsors maintained complete or accurate supporting documentation for claims filed with the department. We also reported this issue in a prior finding, with which management concurred in part. DHS' ongoing monitoring efforts since the prior audit, through EPR, served as the department's only control to achieve corrective action. During our current testwork, we concluded that DHS's monitoring efforts have still been insufficient to correct the continuing issues related to sponsors not maintaining supporting documentation for meal reimbursement claims.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 15(c),

> Sponsors shall maintain accurate records which justify all costs and meals claimed. . . . The sponsor's records shall be available at all times for inspection and audit by representatives of the Secretary, the Comptroller General of the United States, and the State agency for a period of three years following the date of submission of the final claim for reimbursement for the fiscal year.

Cause

In an effort to determine why the 16 sponsors did not maintain complete or accurate supporting documentation, we asked the management of DHS and each sponsoring agency. Based on discussion with the Interim Inspector General, the errors were a result of inadequate oversight functions at the sponsors' agencies. The sponsors provided the following explanations for the errors noted. See Table 1 below.

Table 1: Summary of Reasons for Unsupported Claims			
Reasons	**Sponsor**	**Number of Claims Selected for Review**	**Number of Claims Not Fully Supported**
Reason A: Human error	Sponsor 1	1	1
	Sponsor 2	1	1
	Sponsor 3	1	1
	Sponsor 4	1	1
	Sponsor 5	1	1
	Sponsor 6	2	1
	Sponsor 7	2	1
Reason B: Lack of knowledge, training, or experience with the program	Sponsor 8	2	2
Reason C: Sponsors did not provide a reason or we were unable to obtain a reason	Sponsor 9	2	1
	Sponsor 10	3	2
	Sponsor 11	1	1
	Sponsor 12	2	2
	Sponsor 13	2	1
	Sponsor 14	1	1
	Sponsor 15	3	1
	Sponsor 16	2	2
Total Errors			**20 Transactions**

Effect

When sponsors fail to maintain complete and accurate supporting documentation for the number of meals claimed, the department cannot ensure that reimbursements paid to sponsors were for allowable meals.

Questioned Costs for This Condition

See Table 2 for details of questioned costs for this condition.

Table 2 Summary of Questioned Costs for Unsupported Claims	
Sponsor	**Questioned Costs**
Sponsor 1	$202
Sponsor 2	$7,402
Sponsor 3	$823
Sponsor 4	$377
Sponsor 5	$37
Sponsor 6	$116
Sponsor 7*	$0*
Sponsor 8	$4,016
Sponsor 9	$53
Sponsor 10	$6,338
Sponsor 11	$2,302
Sponsor 12	$341
Sponsor 13	$20
Sponsor 14	$1,118
Sponsor 15	$324
Sponsor 16*	$0*
Total Questioned Costs	**$23,469**

*Upon our request for meal count forms, two sponsors could not provide complete supporting documentation for the selected claim transactions. Specifically, Sponsor 7 could not support meal reimbursements on one transaction in the amount of $337; however, the sponsor provided us with the Weekly Consolidated Meal Count Form and a delivery ticket for the missing Daily Meal Count Form. Sponsor 16 failed to provide supporting documentation for reimbursements on two transactions totaling $7,921; however, we were able to obtain this sponsor's complete supporting documentation from the department's EPR working paper file. As a result, we did not question any costs for Sponsors 7 and 16.

Condition

Unauthorized Meal Types Claimed

For 3 of 69 meal reimbursement claims (4%), we noted that 3 sponsors claimed—and the department provided reimbursement for—unauthorized meal types. Specifically, we found the following:

a. Sponsor 12 claimed 160 snack meals at one feeding site that was approved to serve breakfast and lunch meals only.

b. Sponsor 17 claimed 568 snack meals at two feeding sites that were approved to serve breakfast and lunch meals only.

c. Sponsor 18 claimed 500 lunches at one feeding site that was approved to serve only supper meals.

Even though we reported this issue in a prior finding (and management concurred in part), DHS again failed to implement effective internal controls to ensure that sponsors claim only authorized types of meals.

DHS requires sponsors to submit a site information sheet which documents the type of meals that will be served at each feeding site. The department's TFP system, however, is not designed so that sponsors can submit the number and type of meals served at each approved individual feeding site. The TFP system instead allows sponsors to submit the total number of meals for all feeding sites and therefore is not effective as a control to prevent or detect claim errors related to unauthorized meal types at the feeding site level. As a result of this system design flaw, DHS's management and staff have no control in place to identify when a sponsor submits claims for unapproved meal types.

Criteria

According to 7 CFR 225.16(c),

> The sponsor shall claim for reimbursement only the type(s) of meals for which it is approved under its agreement with the State agency.

Cause

In an effort to determine why the sponsors claimed meal types that were not authorized, we inquired with management of DHS and the sponsors. Based on discussion with the Interim Inspector General, DHS' EPR monitors performed a monitoring review of Sponsor 12 and even tested the same transaction we found questionable; however, the monitors did not identify the sponsor's error through the monitoring activities. The Interim Inspector General stated that sponsors are trained prior to the beginning of the program, are provided technical assistance when necessary, and are monitored for compliance with program guidelines. He also stated that if Sponsor 17 and 18 had been monitored by EPR staff, they would have performed similar testwork as we did. For further details on issues related to the subrecipient monitoring process see Finding 2015-021. Sponsor 12's Program Coordinator did not provide any explanation in response to our inquiry. Sponsor 17's School Nutrition District Supervisor and Sponsor 18's Executive Director stated that they overlooked the type of meals that the feeding sites in question were approved to serve, thus resulting in the noncompliance.

Effect

As a pass-through entity for SFSP, DHS is required to ensure that sponsors comply with federal and state requirements while participating in the program. When DHS fails to detect sponsors' noncompliance with federal requirements, the risk of reimbursing organizations for unallowable expenditures—as well as the risk of fraud, waste, and abuse—is increased.

Questioned Costs for This Condition

See Table 3 for details of questioned costs for this condition.

Table 3: Summary of Questioned Costs for Unauthorized Meal Types Claimed	
Sponsor	**Total Questioned Costs**
Sponsor 12	$134
Sponsor 17	$477
Sponsor 18	$1,823
Total Questioned Costs	**$2,434**

Condition

Meals Claimed Above the Maximum Allowed Meals for Individual Feeding Sites

Of the 69 meal reimbursement claims we reviewed, vended sponsors (sponsors who purchase meals from food service management companies) submitted 9 to the department. We noted that for 1 of the 9 transactions (11%), one sponsor (Sponsor 19) claimed meals at 2 individual feeding sites, exceeding the maximum number of allowed meals as approved by the department at the beginning of the program for each site. Specifically, we discovered the following:

a. DHS approved one feeding site to claim a maximum of 30 meals daily per meal service during summer 2014; however, based on our review of the sponsor's accounting records, the sponsor claimed 40 meals per meal service on 4 days.

b. The department approved another feeding site to claim a maximum of 75 meals daily per meal service during summer 2014; however, based on our review of the sponsor's accounting records, the sponsor claimed between 125 and 202 meals on 8 different days per meal service.

Even though we reported this condition in a prior finding and management concurred in part, our testwork again disclosed that DHS failed to implement effective internal controls to ensure that sponsors do not request reimbursement for meals in excess of the maximum allowable number of meals authorized for each individual feeding site. As stated above, the design deficiencies in TFP prevent sponsors from submitting the number of meals served at each approved individual feeding site. Thus, DHS management and staff have no mechanism to prevent or detect sponsors who continue to request reimbursement for unauthorized meals.

Criteria

According to 7 CFR 225.9(f),

> The [vended] sponsor shall not claim reimbursement for meals served to children at any site in excess of the site's approved level of meal service, if one has been established under §225.6(d)(2).

Cause

In an effort to determine why the sponsor claimed above the maximum allowed meals for individual feeding sites, we asked DHS and the sponsors. According to the Interim Inspector General, TFP does not have capabilities that would prevent sponsors from overclaiming meals at individual feeding sites. Sponsor 19's owner stated that he notified DHS through phone calls on days when he planned to serve meals above the approved amounts; however, we were unable to obtain documentation, either directly from Sponsor 19's owner or from reviewing Sponsor 19's file located at the department, that the sponsor was approved to serve a higher number of meals than the department approved prior to the beginning of the 2014 program.

Effect

Because DHS has not designed the TFP system to include data elements to capture the number of meals served by sponsors at each feeding site, staff cannot verify through the system that sponsors only claim the authorized maximum meals per site. Without this system control, the department has allowed sponsors to claim more meals than allowed, resulting in questioned costs.

Questioned Costs for This Condition

Since we were unable to verify whether the department authorized Sponsor 19 to serve and claim meals above approved amounts, we questioned $2,999.

Condition

Sponsor Incorrectly Claimed Second Meals as First Meals and Claimed Second Meals Above the 2% Limit

Based on testwork performed and review of supporting documentation, we noted that for 1 of 20 transactions tested that included second meals on the claim (5%), Sponsor 20 incorrectly claimed

163 second breakfast meals served to children as first meals in TFP. Using the 2% rule to claim second meals, we verified that the sponsor should have claimed only 111 second meals based on the number of first meals claimed, resulting in questioned costs. We also noted that Sponsor 20 incorrectly claimed 107 second lunch meals as the first meals served but did not exceed the 2% limit in those instances, resulting in no questioned costs.

Criteria

According to page 92 of the *2015 Summer Food Service Program for Children Administrative Guidance for Sponsors*,

> Based on records that are regularly submitted by the sites, sponsors must report the number and type of first and second meals served to all children; sponsors of camps need to report the meals served to eligible children only. The total number of second meals claimed cannot exceed two percent of the number of first meals, for each type of meal served during the claiming period.

Cause

In an effort to determine why the sponsor inappropriately claimed second meals, we asked DHS and the sponsors. Based on discussion, the Interim Inspector General could not explain the cause of the issue noted but explained that sponsors are trained prior to the beginning of the program, are provided technical assistance when necessary, and are monitored for compliance with program guidelines. The sponsor's Supervisor of Nutrition said that the person who supervised the 2014 program was no longer employed with the agency; therefore, she could not provide an explanation.

Effect

As a pass-through entity for SFSP, DHS is required to ensure that sponsors comply with federal and state requirements. When DHS fails to detect sponsors' noncompliance with federal and state requirements, the risk of reimbursing organizations for unallowable expenditures increases.

Questioned Costs for This Condition

We questioned $105 for the second meals claimed above the 2% limit.

Condition

Incorrect Administrative Reimbursement Rates paid to Sponsors

On 3 of 69 transactions reviewed (4%), we discovered that the department reimbursed 2 sponsors with incorrect administrative reimbursement rates. Specifically, we noted the following:

a. Sponsor 19 was a vendor-prepared agency during the 2014 program. Per review of the sponsor's reimbursement statements for selected transactions, though, DHS reimbursed the agency with a self-prepared administrative reimbursement rate on two transactions.

b. Sponsor 21 was a self-preparatory agency during the 2014 program. Our review of the sponsor’s reimbursement statement revealed, however, that the department reimbursed the agency with a vendor-prepared administrative reimbursement rate on one transaction.

Criteria

According to the *2015 Summer Food Service Program for Children Administrative Guidance for Sponsors*, page 88,

> Reimbursements are based on the number of reimbursable meals served multiplied by the sum of administrative and operational rates.

The *Guidance* also states on page 89,

> The SFSP has two different levels of administrative reimbursement rates. The higher reimbursement rates are for sponsors of sites that prepare or assemble their own meals and for sponsors of sites located in rural areas. The lower rate is for all other sponsors.

Cause

Based on discussions with the Interim Inspector General, Program staff incorrectly coded both sponsors in TFP. The selection for self-prepare or vender are in a drop down box in TFP and the program staff clicked on the wrong selection.

Effect

As a pass-through entity for SFSP, DHS is responsible for ensuring that sponsors receive meal reimbursements in accordance with federal guidelines. When DHS fails to implement adequate controls over the reimbursement process, the risk heightens that staff will reimburse sponsors at incorrect rates.

Known Questioned Costs for This Condition

We questioned costs for which the department overpaid to Sponsor 19 on two transactions in the total amount of $986. We did not question any costs associated with the underpayments to Sponsor 21.

Summary of Questioned Costs for All Conditions

Conditions	Known Questioned Costs
Lack of supporting documentation	$23,469
Unauthorized meals claimed	$2,434
Meals claimed above maximum allowed for individual feeding sites	$2,999
Incorrectly claimed second meals	$105
Incorrect administrative reimbursement rates paid to sponsors	$986
Total Questioned Costs	**$29,993**

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner of the Department of Human Services, the Interim Inspector General, and the Interim Director of Community Services should ensure that the department recovers $29,993 from the sponsors for issues noted in the finding. The Interim Director of Community Services should develop stronger controls over the Summer Food Service Program for Children. These controls should ensure that

- all sponsors maintain complete and accurate documentation to support the meals served and claimed for reimbursements;
- sponsors do not claim unauthorized meals or meals in excess of the approved maximum allowable meals for each individual feeding site;
- sponsors follow federal guidelines when claiming second meals on their meal reimbursements; and
- the department reimburses all sponsors with correct meal rates for meals served to children.

The Interim Director of Community Services should design controls, including for the TFP system, to ensure that both departmental staff and sponsors comply with federal and state requirements and that errors, fraud, waste, and abuse are prevented entirely or detected promptly.

The Commissioner should assess all significant risks, including the specific risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur in part.

The Department agrees that administrative reimbursement rates were incorrectly coded into the Department of Human Services' payment system for the two sponsors noted. The Department is currently implementing new software that will improve this process. The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount.

The Department does not agree that the other items noted in this finding are a compliance issue for the Department. However, we do agree they are a compliance issue for the subrecipient (sponsor) as the items are under the direct responsibility of the subrecipient. The Department does not have direct responsibility to perform these functions.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that sub-recipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grant funds, DHS management is ultimately responsible for ensuring that subrecipients follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. This finding is the result of management's and sponsors' inadequate internal controls and/or noncompliance with federal regulations.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-032
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	N/A
Repeat Finding	2014-030

As noted in the prior audit, the Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and claimed meals according to established federal regulations

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements. In order to receive reimbursements for meals served to children, subrecipients, known as sponsors, must comply with the federal and state requirements while administering the program. Sponsors may operate the program at one or more feeding sites, which are the actual locations where meals are served to children.

DHS requires sponsors to count meals served and record this number on a daily meal count form. The department then provides meal reimbursement to the sponsors based on the count form.

We performed observation testwork on feeding sites for the 2015 program. The program operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our federal testwork crossed two state fiscal years: the 2015 state fiscal year (July 1, 2014, through June 30, 2015) and the 2016 state fiscal year (July 1, 2015, through June 30, 2016).

Condition and Criteria

We selected a nonstatistical, random sample of 60 meal reimbursement claims (as described in finding 2015-031) representing 35 sponsors. From this list, we selected 22 sponsors who participated in both the 2014 and 2015 programs and who were still participating as of July 13, 2015 (the start date of our site visits). In addition, we used our risk assessment to haphazardly select 5 sponsors from a list of 14 new sponsors for the 2015 program.

We observed a meal service at 27 SFSP feeding sites for the 27 different sponsors selected for testwork. Overall, we discovered meal service noncompliance at 5 of 27 feeding sites visited (19%). Specifically, we noted the following:

a. One sponsor (Sponsor 1) told us that meals claimed for reimbursement on the meal count form were based on the expected attendance for that day instead of actual meals served. According to the *2015 Summer Food Service Program for Children Administrative Guidance for Sponsors* (administrative guidance), "Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . meals that were not served."

   Furthermore, the guidance states,

   > It is critical that site personnel and monitors understand the importance of accurate point-of-service meal counts. Only complete meals served to eligible children can be claimed for reimbursement. Therefore, meals must be counted at the actual point of service, i.e., meals are counted as they are served, to ensure that an accurate count of meals served is obtained and reported. Counting meals at the point of service also allows site personnel to ensure that only complete meals are served.

b. On the meal count form, one sponsor (Sponsor 2) reported five incomplete meals served as second meals as reimbursable. According to the administrative guidance, "Reimbursement may not be claimed for . . . meals not served as a complete unit."

c. One sponsor (Sponsor 3) allowed four children to consume four meals, served as seconds, off-site and reported those meals on the count form as reimbursable. The administrative guidance establishes, "Reimbursements may not be claimed for . . . meals consumed offsite."

d. One sponsor (Sponsor 4) served 10 incomplete breakfasts to children and reported those meals on the meal count form as complete and thus reimbursable meals. The administrative guidance prescribes,

   > For a breakfast to be a reimbursable meal, it must contain:
   >
   > - one serving of milk;
   >
   > - one serving of a vegetable or fruit or full-strength juice; and
   >
   > - one serving of grain or bread.

   As described previously, the program guidance mandates that reimbursable meals be served as a complete unit.

   Sponsor 4 also claimed meals delivered to the sponsor instead of meals the sponsor served to children. As stated above, the administrative guidance requires sponsors to count meals at the actual point of service to the children and does not allow meals that were not served to children to be claimed for reimbursement.

e. One sponsor (Sponsor 5) did not count the meals served to children at the point of service. On the day we observed the meal service, the Site Supervisor determined the meal count by subtracting the number of meal leftovers following the meal service from the number of delivered meals prior to the meal service. As stated above, the administrative guidance requires sponsors to count meals at the actual point of service. We were unable to determine the exact meal count on the day we visited the feeding site because the sponsor served meals to children at the same time in two different sections of the same building.

We reported the issue of sponsors not complying with established federal regulations at feeding sites as a finding in the prior audit. Management concurred in part with that finding. Since the prior audit, the department's ongoing monitoring efforts through External Program Review (EPR) served as the only control to achieve corrective action; however, we still found noncompliance despite EPR's monitoring efforts.

Another element of our testwork involved reviewing DHS' November 2014 Financial Integrity Act Risk Assessment, and we determined that management did not include in the assessment the specific risks and mitigating controls associated with sponsors not following federal regulations while serving meals.

Cause

In an effort to determine the cause of the noncompliance, we discussed the errors with the feeding site supervisors and were given the following explanations:

a. Sponsor 1's Program Manager stated that the Site Supervisor misunderstood the recording requirements during the training the sponsor provided prior to the beginning of the 2015 program. Sponsor 1's Program Coordinator responded, however, that the Site Supervisor understood the recording requirements but had made an error on the day we visited the feeding site. Due to the conflicting explanations, we were unable to verify the cause of Sponsor 1's issue.

b. Discussion with Sponsor 2's Site Supervisor revealed that she recorded those meals served as seconds on the meal count form if a child received a sandwich, which could have been served with or without any additional meal components. Sponsor 2's Program Manager said that the Site Supervisor misunderstood the requirements of what meals can or cannot be claimed on the meal count form as reimbursable meals.

c. According to Sponsor 3's Site Supervisor, she was unaware she could not claim meals consumed off-site. The Food Program Manager for Sponsor 3 stated that the Site Supervisor made a mistake on the meal count form by recording the four meals taken off-site.

d. Sponsor 4's Site Supervisor acknowledged that she made a mistake by serving incomplete meals and claiming those meals on the count form. Discussion with the Site Supervisor also revealed that she had been documenting the number of meals delivered instead of the number of meals actually served on the meal count form since the beginning of the 2015 program. The Site Supervisor asserted that Sponsor 4's management provided instructions to record the number of meals delivered instead of meals served.

e. The Site Supervisor for Sponsor 5 commented that she attended the training the sponsor provided prior to the beginning of the 2015 program but added that she does not work with the summer food program on a daily basis. The Program Coordinator, who manages the program at the feeding site on a daily basis, called in sick the day we observed the meal service.

Additionally, we discussed the errors with DHS personnel. Based on discussions with the Interim Inspector General, sponsors are trained and provided prior to the beginning of the program, are provided technical assistance when necessary, and are monitored for compliance with program guidelines. The Interim Inspector General explained that sponsors must adequately train their site supervisors and perform monitoring of their feeding sites. According to the Interim Inspector General, training of feeding site personnel is outside the department's control, but the EPR checks for noncompliance during monitoring reviews. See Finding 2015-021 for further details on issues related to the subrecipient monitoring process

Effect

As a pass-through entity for SFSP, DHS is responsible for ensuring that program sponsors comply with federal and state requirements. When the department cannot ensure that sponsors comply with federal requirements, the risk of providing reimbursement for unallowable expenditures increases, along with the risk of fraud, waste, and abuse.

We did not question any costs associated with these issues because the site supervisors volunteered to correct the daily meal count forms before submitting the unallowed meals for reimbursement; however, without adequate training and sufficient monitoring efforts, the department cannot ensure sponsors and feeding site personnel comply with federal regulations.

Recommendation

The Commissioner and Interim Director of Community Services should ensure that sponsors participating in SFSP report and claim reimbursements based on the federal regulations by providing more effective, ongoing training and monitoring activities.

Management should also include the risks and corresponding controls associated with SFSP subrecipients not complying with the program requirements in the department's 2016 risk assessment.

Management's Comment

We do not concur.

The Department does not agree that this is a compliance issue for the Department. However, we do agree it is a compliance issue for the subrecipient. The items noted in this finding are under the direct responsibility of the subrecipient (sponsor). The Department does not have direct responsibility to perform these functions.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with subrecipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that subrecipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most subrecipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grants, DHS management is ultimately responsible for ensuring that sponsors follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. The finding is the result of management's and sponsors' inadequate internal controls and noncompliance with federal regulations.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-033
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles
Questioned Costs	$206,165
Repeat Finding	2014-031

As noted in the prior audit, the Department of Human Services failed to implement processes and controls to track and recover excess funds from non-returning sponsors for the 2015 Summer Food Service Program for Children

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, DHS is responsible for monitoring subrecipients, known as sponsors, in order to provide reasonable assurance that these subrecipients comply with federal and state requirements. The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements.

Excess funds occur when DHS reimburses sponsors in excess of the sponsors' program expenditures. The department's External Program Review (EPR) division determines during monitoring whether a sponsor received excess funds. If EPR identifies the sponsor received excess funds, the sponsor may use the excess funds for SFSP in the following year, or the sponsor can use the balances in any other Child Nutrition Program in the current or the following year. If the sponsor does not operate in the following year and does not participate in another Child Nutrition Program, the department is required to collect the excess funds.

Condition

As noted in the prior audit finding, DHS program and fiscal staff once again did not have procedures and controls in place to track and/or recover excess funds paid to SFSP sponsors that EPR identified during the 2014 program that did not participate in the 2015 program or in other Child Nutrition Programs. Specifically, we noted that the department did not recover $206,165 in excess funds EPR identified for the 2014 program when three sponsors decided not to participate in SFSP for 2015.

Department management concurred in part with the prior finding and stated that management planned to strengthen controls over sponsors' oversight and to ensure program staff would be effectively trained and held accountable for their work. In response to the prior audit finding, DHS fiscal and EPR staff implemented procedures to follow-up on sponsors who had received excess funds and who returned for the 2015 summer food program. Based on our review of supporting documentation and discussion with the Interim Inspector General, the Interim Director of Community Services, and Accountant 3, we found, however, that the food program staff failed to follow up on the sponsors' use of the excess funds when sponsors did not return for the 2015 summer food program and did not participate in another Child Nutrition Program. As a result of failing to monitor the excess funds, the program staff could not coordinate with fiscal staff to collect excess funds totaling $206,165.

We also determined that management did not adequately address risk and mitigating controls associated with Food Program personnel's noncompliance with program guidelines and regulations in the DHS' November 2014 Financial Integrity Act Risk Assessment even in light of prior-year audit findings.

Criteria

According to the U.S. Department of Agriculture, Food and Nutritional Service *2015 Summer Food Service Program for Children Administrative Guidance for Sponsors*, p. 90,

> Any reimbursements or funds that exceed a sponsor's expenditures must be used in a way that benefits SFSP services to children or other Child Nutrition Programs operated by the sponsor. Sponsors with funds remaining at the end of the Program year should use them as start-up funds or for improving SFSP services in the following year. . . . If the sponsor will not be participating in SFSP the next year, funds may be used towards the sponsor's provision of other Child Nutrition Programs. If the sponsor does not operate any other Child Nutrition Programs, the State will collect the excess funds.

Cause

In an effort to determine why program staff failed to follow up with non-returning sponsors and collect the excess funds, we asked both fiscal staff and program staff. The Interim Director of Community Services stated she started overseeing SFSP in July 2015 and could not explain why fiscal and previous program staff did not implement adequate processes to account for excess funds in the past. See Finding 2015-021 for further details on issues related to lack of written policies and procedures and employee turnover. Discussions with the Accountant 3 revealed that she misinterpreted the regulations because she believed the excess fund balances did not reflect disallowed meals in SFSP and thus were not collectable.

Effect

When management does not develop adequate procedures and controls to recover excess funds, these excess funds cannot be redistributed to other agencies to meet the federal award objectives. Additionally, when sponsors are allowed to maintain excess funds in violation of federal regulations, there is an increased risk that excess funds will not be used for allowable activities.

Currently, the department cannot provide any evidence that excess funds were spent in accordance with federal guidelines.

Questioned Costs

Since the department failed to recoup the funds from the sponsors, we questioned $206,165 overpaid to the three sponsors during the 2014 program. See the summary of the known questioned costs below.

Sponsor	SFSP Agreement #	Amount of Excess Funds for the 2014 Program Year
Sponsor 1	30192	$1,544
Sponsor 2	30113	$6,697
Sponsor 3	30189	$197,924
Total		**$206,165**

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations, requires us to report questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should ensure that the Interim Director of Community Services and the Accountant 3 develop and implement controls to track all excess funds paid to SFSP sponsors. These controls should ensure that sponsors ultimately use excess funds for allowable costs and activities or that the department recoups the excess funds as required. The Commissioner should also document controls to mitigate the risks identified in management's risk assessment.

Management's Comment

We concur in part.

To clarify, per the U.S. Department of Agriculture-Food and Nutritional Service Handbook, *2015 Summer Food Service Program for Children Administrative Guidance for Sponsors,* excess funds are not required to be collected at the end of program years unless sponsors will not be participating in Child Food Nutrition programs moving forward. Two of the three sponsors did not participate in the following year. The other sponsor's application for the following year was denied. For SFSP 2015, requirements for handling excess funds were provided to sponsors. The Department is now tracking excess funds and sponsor responses for handling the funds.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As noted in the finding and in management's comments, the three sponsors did not participate in the program the following year. Management did not have procedures to track excess funds for the sponsors who did not participate in the program the following year and thus failed to recover excess funds as required.

Finding Number	2015-034
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not ensure that Summer Food Service Program for Children sponsors used appropriate income eligibility application forms when required, adequately documented the individual eligibility process, or implemented sufficient internal controls to ensure income eligibility application forms were filled out completely and accurately

Background

The U.S. Department of Agriculture (USDA) established the Summer Food Service Program for Children (SFSP) to ensure low-income children receive nutritious meals when school is not in session. The Department of Human Services (DHS) administers the summer food program on the state level and contracts with subrecipients to provide meals on a reimbursement basis. Subrecipients, also known as sponsors, may operate the program at one or more sites, which are classified as open feeding sites, closed enrolled sites, or camps.

Sponsors that operate camps are reimbursed only for those enrolled children who meet the free and/or reduced price eligibility standards. In order to determine the eligibility for children, camp sponsors may use income eligibility applications or rely on a list of income-eligible children provided by the school system. Sponsors of closed enrolled sites have an option of using income eligibility applications to determine participants' eligibility for SFSP meals. Sponsors with open feeding sites are not required to collect income eligibility forms.

We identified a total of 599 individuals at all 6 camp-sponsored feeding sites who were approved to participate in the 2015 SFSP (May 2015 – September 2015). We selected a random, non-statistical sample of 10 income eligibility application forms at each camp-sponsored feeding site, totaling 60 income eligibility application forms for our testwork. We found

- DHS did not ensure camp sponsors used the most current income eligibility application forms to determine eligibility for program meals;
- camp sponsors did not ensure that individual income eligibility application forms were filled out completely and accurately; and

- camp sponsors did not adequately document the eligibility process for children receiving program meals.

Condition

Outdated Income Eligibility Application Forms Used

Based on testwork performed, we noted that the department provided camp sponsors with outdated Income Eligibility Application for Participant forms, which two sponsors—Sponsor 1 and Sponsor 2—eventually used to determine the individual eligibility for program meals. Because of this deficiency, we found that 20 of 60 individual income application forms reviewed (33%) were outdated.

Specifically, the Income Eligibility Application for Participant form that the department gave to the sponsors was a standardized form issued by USDA for the 2014 program. USDA, however, updated the form for the 2015 program, and the newer version included a block for household members to indicate the date when the form was completed.

We also reviewed DHS' November 2014 Financial Integrity Act Risk Assessment and determined that while management listed the risk that "inadequate documentation is obtained from the federal program recipient to verify eligibility," the department did not include the mitigating control for this risk.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 15(f)(2),

> The household member completing the application on behalf of the child enrolled in the Program must provide the following information: . . . (vi) The date the application is completed and signed.

Cause

Based on discussion with Sponsor 1's Director of Upward Bound and Sponsor 2's Director of Camp, the department provided the sponsors outdated Income Eligibility Application for Participant forms during SFSP training held prior to the beginning of the 2015 program. The Interim Director of Community Services stated that the department provided the sponsors with the 2014 and 2015 versions, but the sponsors in question chose to use the older version of the form. See Finding 2015-021 for details on issues related to the subrecipient monitoring process, written policies and procedures, and staffing.

Condition

Income Eligibility Application Forms Were Filled Out Inaccurately or Incompletely

Our testwork also disclosed the following deficiencies:

a. Two sponsors did not ensure adult household members listed all household members and their respective incomes on 5 income eligibility application forms (8%). Specifically, Sponsor 1 did not ensure that four income eligibility application forms were filled out completely; Sponsor 2 did not ensure that one income eligibility application form was filled out completely.

b. On one income eligibility application form (2%) for Sponsor 2, an adult household member did not write the last four digits of the Social Security number or an indication that the adult household member did not have a Social Security number.

c. Adult household members wrote incorrect dates of birth for participants on the applications they submitted to the camp sponsor. We found this condition applied to three of the income eligibility application forms we reviewed (5%). Specifically, Sponsor 1 did not ensure that a date of birth for one participating individual and Sponsor 2 did not ensure that dates of birth for two participating individuals were stated accurately on the income eligibility application forms. The dates on the eligibility forms indicated that the participants were under the age of one, which is an unreasonable age to participate in this feeding program.

Furthermore, we determined that DHS' November 2014 Financial Integrity Act Risk Assessment did not include the risks associated with camp sponsors not obtaining accurate and complete information on income eligibility application forms.

Criteria

According to 7 CFR 225.15(f)(2),

> The household member completing the application on behalf of the child enrolled in the Program must provide the following information: . . .
>
> > (ii) The names of all other household members;
> >
> > (iii) The last four digits of the social security number of the adult household member who signs the application or an indication that the household member does not have a social security number;
> >
> > (iv) The income received by each household member identified by source of income; …

Cause

In an effort to determine the cause of the errors noted, we discussed the errors with the sponsors' representatives and were given the following explanations:

a. Sponsor 1's Director of Upward Bound stated the error was caused by the lack of oversight at the sponsor's agency. Sponsor 2's Director of Camp stated that she thought it was not required to list all household members and their incomes on the income eligibility application forms.

b. Sponsor 2's Director of Camp stated the issue was caused by a human error.

c. According to Sponsor 1's Director of Upward Bound and Sponsor 2's Director of Camp, the issues noted were caused by a lack of oversight at the respective sponsors' agencies.

Additionally, we discussed the errors with DHS personnel. The Interim Inspector General and Interim Director of Community Services could not explain the cause of the issue noted but explained that sponsors are trained prior to the beginning of the program, are provided technical assistance when necessary, and are monitored for compliance with program guidelines.

Condition

Inadequately Documented Eligibility Determination

Based on testwork performed, we noted that for 13 of 60 income eligibility application forms reviewed (22%), two sponsors did not adequately document the individual eligibility determination. Specifically, we noted

a. Sponsor 1 did not document eligibility classifications (e.g., Free, Reduced-Price, or Paid) in the "For Sponsor Staff Use Only" box on 10 Income Eligibility Application for Participant forms; and

b. Sponsor 2 incorrectly documented eligibility classifications (e.g., Free, Reduced-Price, or Paid) or bases for classification (e.g., Categorically Eligible or Income Eligible) in the "For Sponsor Staff Use Only" box on three Income Eligibility Application for Participant forms. More precisely, we determined that one participant was categorically eligible as "Free," but Sponsor 2 documented its determination of the participant's eligibility as "Reduced-Price." The other two participants were categorically eligible (eligible and/or receiving other benefits) for SFSP meals, but Sponsor 2 incorrectly documented these individuals' bases for classification as income eligible (based on income eligibility).

The errors noted above did not have any impact on the meal reimbursement rates Sponsor 1 and Sponsor 2 received on the sampled income eligibility application forms.

We also reviewed the DHS November 2014 Financial Integrity Act Risk Assessment and determined that management did not include the risks associated with sponsors not appropriately documenting eligibility determination on income eligibility application forms in its annual risk assessment.

Criteria

Sponsors that use the Summer Food Service Program Income Eligibility Application for Participant, a standardized form issued by USDA, must appropriately document the eligibility determination in the "For Sponsor Staff Use Only" box. This information is used to verify whether participants receiving SFSP meals are eligible for the program and upon what criteria the determination was made.

Cause

We also discussed the errors with DHS personnel. Based on discussion, the Interim Inspector General and Interim Director of Community Services could not explain the cause of the issue noted but explained that sponsors are trained prior to the beginning of the program, are provided technical assistance when necessary, and are monitored for compliance with program guidelines.

In an effort to determine the cause of the errors noted, we discussed the errors with the sponsors' representatives and were given the following explanations:

a. Sponsor 1's Director of Upward Bound stated that she did not circle "Free, Reduced-Price, or Paid" eligibility classifications on the Income Eligibility Application for Participant forms because all students in the local area school system receive free meals during the school year; therefore, she incorrectly assumed that it was acceptable not to fully document the eligibility determination without verifying with the department's program staff.

b. According to Sponsor 2's Director of Camp, the errors noted were caused by a lack of oversight at the sponsor's agency.

Effect

When DHS and camp sponsors fail to implement adequate controls in the eligibility determination process, the risk of reimbursing organizations for meals served to ineligible participants is increased.

Recommendation

The Commissioner should ensure that the Interim Director of Community Services develops and implements adequate controls over the Summer Food Service Program for Children. These controls should include

- procedures to ensure that camp sponsors use appropriate forms that comply with federal guidelines to determine eligibility of individuals for program meals;
- effective training to ensure that camp sponsors adequately verify information obtained from individuals for eligibility purposes for completeness and accuracy; and
- assistance in developing effective oversight over the eligibility determination process at the sponsoring agencies.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately document and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We do not concur.

The Department does not agree that this is a compliance issue for the Department. However, we do agree it is a compliance issue for the subrecipient. The items noted in this finding are under the direct responsibility of the subrecipient (sponsor). The Department does not have direct responsibility to perform these functions.

After approval by the Department to operate, the program is designed in a manner whereby subrecipients (sponsors) are responsible for ensuring compliance with program requirements. The Department has a responsibility to review and monitor for compliance after the program is in operation. The process is similar to when a physician delivers service to a patient and then submits a claim to an insurance company for reimbursement. At that point, typically reimbursement occurs, followed by periodic monitoring reviews for compliance to determine proof of service and if other requirements were met.

The Department will ensure that monitoring continues to occur with sub-recipients to evaluate compliance with requirements. In cases where noncompliance exists, the Department will take necessary action up to and including technical assistance and/or termination depending on the nature and severity of the infraction. This may include recoupment of funds where applicable. It should be noted that subrecipients (sponsors) complete an orientation and training as part of the approval process and are fully expected to meet the requirements as stipulated.

The Department's impression is that most sub-recipients generally share in the desire to fulfill the mission of the program and work to do so effectively. The program as designed by the federal partners is heavily reliant on the honor system and good faith. However, it does require a high level of discipline and rigor to effectively administer. It presents a challenge even for the well-intended. Due to the magnitude of the program, the opportunities for error are high. These issues will continue to be identified and addressed through the Department of Human Services, Federal partner, and State auditing/monitoring process.

Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

As the recipient of federal grants, DHS management is ultimately responsible for ensuring that sponsors follow the program guidelines and comply with the applicable requirements while participating in the program. Management is responsible for monitoring subrecipients; however, as noted in finding 2015-021, its monitoring process is not sufficient. The finding is the result of management's and sponsors' inadequate internal controls and noncompliance with federal regulations.

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-035
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Noncompliance
Compliance Requirement	Period of Performance
Questioned Costs	$236,200
Repeat Finding	N/A

The Department of Human Services paid Summer Food Service Program for Children subrecipient claims for reimbursement that were submitted late, resulting in $236,200 of questioned costs

Background

Summer Food Service Program for Children (SFSP) sponsors receive program payments based on the number of meals served multiplied by the combined administrative and operating rates for reimbursement. Claims for reimbursement must reflect only meals that meet SFSP requirements and are served to eligible children during the claiming period, generally a month. Sponsors must submit claims to the State agency as soon as possible within the month following the month covered by the claim.

Sponsors may submit claims directly into the Tennessee Food Program (TFP) system or mail claims to the Department of Human Services (DHS) for the Fiscal Division to enter into TFP. Claims must be submitted or entered into TFP within a specific timeframe outlined by federal regulations; however, sponsors are allowed to submit late claims once every 36 months. When the department's monitors determine during on-site reviews that a sponsor's claim needs corrections, the sponsors may submit a revised claim. Since these types of claims are revised based on monitoring, the claim may be submitted after the time frame specified by regulations.

Condition

We selected a sample of 60 reimbursement claims for the SFSP from July 1, 2014, through June 30, 2015, to determine if the final claim for reimbursement was submitted and paid within an appropriate amount of time, identified by federal regulations as the period of performance. If the sampled claim was a revision, we reviewed the original claim to determine if it was submitted within an appropriate amount of time as defined by federal regulations.

Based on the sampled testwork performed, we determined that DHS paid 1 of 60 original claims (2%) late and thus outside the period of performance. In this case, the sponsor submitted the claim late to DHS. Further review of the sponsor's claim submission history for the previous 36 months revealed that DHS also paid two other original claims that the sponsor had submitted late. Even though the three original claims were submitted between 1 and 62 days late, the Interim Director of Community Services did not obtain an exception from the U.S. Department of Agriculture's Division of Food and Nutrition Services (FNS) to pay the late claims with program funds. See Table 1 below for details of the late claim submission.

Table 1: Summary of Late Claim

	Claim Month/Year	Date Claim Submitted	Number of Days Late	Total Paid Claim Amount
1	May 2014	9/30/2014	62	$2,580.69
2	June 2014	9/30/2014	32	$90,723.29
3	July 2014	9/30/2014	1	$142,895.55
			Total	$236,199.53

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We determined that the management and staff did not identify a risk associated with federal funds used beyond the allowed period of performance.

Criteria

According to Title 7, *Code of Federal Regulations*, Part 2, Section 225.9(d)(6),

> A final Claim for Reimbursement shall be postmarked and/or submitted to the State agency not later than 60 days after the last day of the month covered by the claim. State agencies may establish shorter deadlines at their discretion. Claims not filed within the 60 day deadline shall not be paid with Program funds unless FNS determines that an exception should be granted.

Cause

Based on discussion with the Fiscal Director 1 and Accountant 3, the sponsor submitted all three claims on the same day. According to the Fiscal Director 1, by the time the sponsor notified program staff in September 2014 about technical difficulties experienced when logging on to TFP to submit the claims, the 60-day deadline had passed. Even though the sponsor experienced the difficulties, the department should have requested an exception from FNS to pay the late claims.

Effect

When DHS does not obtain an exception to pay late claims, it has failed to comply with the federal regulations. Additionally, there is an increased risk that the department's federal reimbursement will be disallowed.

Questioned Costs

As a result of the department paying claims that were submitted after the 60-day deadline without obtaining an exception from FNS, we questioned $236,200.

Recommendation

The Interim Director of Community Services should ensure claims submitted after the 60-day deadline are not paid unless an exception is obtained from FNS. The department should encourage sponsors to notify the department timely if the sponsor has extenuating circumstances that prevent filing the claim within the 60-day deadline.

Management's Comment

We concur in part.

The Department agrees that claims were processed and paid outside of the 60 day deadline due to the sponsor submitting past the deadline without exceptions from FNS for payment approval. The Department does not agree with the questioned cost. Per guidance from our federal partner, when State Audit identifies questioned costs, it is up to management to determine the actual amount to bill, if any. This would require the federal partner and the Department to investigate the questioned costs and to look at appropriate supporting documentation to determine the correct amount to bill. The important thing to ensure is that the Department has a clear and documented audit trail which supports the billing amount.

Please see finding 2015-021 for our full response to the Food Program findings.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-036
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not document its monitoring review of the Summer Food Service Program for Children sponsors' food service management companies

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and is administered on the state level by the Tennessee Department of Human Services (DHS). The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet the age and income requirements. As a pass-through entity for SFSP funds, DHS is responsible for monitoring subrecipients, also known as sponsors. The department's monitoring efforts serve as a critical control to provide reasonable assurance that these subrecipients comply with federal and state requirements. To accomplish the department's monitoring requirements, the department's External Program Review (EPR) section is responsible for performing sponsor reviews and site visits to monitor sponsors for compliance with program requirements.

EPR monitors utilize the following three forms when monitoring sponsors:

(1) Sponsor Review Guide – documents the monitors' initial review of the sponsor during the sponsor's first week participating in the program;

(2) Vendor Review Guide – documents the monitors' review of food service management companies that contract with sponsors; and

(3) Site Review Guide – documents the monitors' meal observation results.

Condition

We reviewed all 53 sponsors that EPR monitored during the 2014 SFSP period, and we identified that 10 sponsors contracted with a food service management company to obtain program meals. Based on testwork performed, we determined that EPR monitors did not complete the Vendor Review Guide for 3 of 10 sponsors reviewed (30%). The EPR monitors' supervisor did not realize that the monitors did not complete the Vendor Review Guides. Since the monitors did not complete the Vendor Review Guides, we could not determine if the monitors actually reviewed the contracts and monitored the food service management companies for compliance with federal regulations.

We reviewed the DHS' November 2014 Financial Integrity Act Risk Assessment and determined that management did not include the risk and mitigating controls associated with EPR not completing Vendor Review Guides for monitored sponsors in its annual risk assessment.

Criteria

According to Title 7, *Code of Federal Regulations*, Part 225, Section 7(d),

> As a part of the review of any vended sponsor which contracts for the preparation of meals, the State agency shall inspect the food service management company's facilities.

Cause

According to the Interim Inspector General, the monitors who performed the EPR monitoring reviews should have completed Vendor Review Guides to document the review of the food service management companies. He was not certain if the monitors actually reviewed the food service management companies as required by federal regulations. See Finding 2015-021 for further details on issues related to the subrecipient monitoring process.

Effect

EPR continues to be the DHS' critical tool for ensuring sponsors comply with the program guidelines. Unless the EPR monitors perform reviews of the food service management companies and document the reviews on the Vendor Review Guides, the department cannot comply with the federal monitoring requirements and increases the risk that the department's sponsors will contract with companies that do not have sufficient food preparation facilities.

Recommendation

The Commissioner should ensure that the Interim Inspector General and EPR monitors perform reviews of food service management companies and appropriately document the reviews.

The Commissioner should assess all significant risks, including the risk noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur in part.

The Department agrees that monitoring review guides were not completed for 3 of the 10 agencies requiring a separate review for food service management companies. However, completing the review is a standard part of the Department monitoring review process. The issue was caused by one staff person and their supervisor not following through with standard monitoring procedures and this issue has been addressed. This is not a systemic issue as it was isolated to two employees. Performance for these two employees is being monitored by their supervisor.

Please see finding 2015-021 for our full response to the Food Program findings.

Finding Number	2015-037
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$7,782
Repeat Finding	2014-033

For the third year, Vocational Rehabilitation counselors did not follow policy when purchasing computer equipment for program clients, resulting in federal questioned costs of $7,782

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services through its Division of Rehabilitation Services (DRS). According to Title 34, *Code of Federal Regulations* (CFR), Part 361.3, and 34 CFR 361.50,

> The Secretary [of the United States Department of Education] makes payments to a State to assist in . . . [t]he costs of providing vocational rehabilitation services under the State plan. . . . [and] [t]he State unit must develop and maintain written policies covering the nature and scope of each of the vocational rehabilitation services specified . . . and the criteria under which each service is provided.

To comply with 34 CFR 361.50, DRS implemented a series of internal policies, called Standard Procedures Directives, specifying the nature, scope, and criteria for each type of Vocational Rehabilitation service provided to eligible clients. Additionally, the department's *Tennessee Fee Manual* stipulates the maximum dollar amount authorized for each type of approved service.

The Vocational Rehabilitation counselors work with clients to develop Individualized Plans for Employment (IPEs), which specify the clients' vocational goal and the variety of services and support the Vocational Rehabilitation program will provide to achieve the stated goals. In some cases, an IPE may stipulate that the client requires computer equipment to attain his or her vocational goal. DRS' Standard Procedures Directive 46, "Purchasing and Authorization and Invoice," an internal purchasing policy required by federal grant rules, contains extensive guidelines to ensure that DRS staff appropriately purchase computer equipment for Vocational Rehabilitation clients based on the clients' needs.

As noted in the prior two audits, Vocational Rehabilitation counselors did not always follow established departmental policy. The Department of Human Services' management concurred in part with the prior-year finding and stated that management planned to modify the computer usage policy and would take necessary corrective measures with employees who do not follow the computer equipment purchase policy. In response to the prior audit finding, management revised the computer usage policy, effective February 9, 2015, requiring those clients without a signed April 2013 version of the IPE to sign a computer usage agreement. We found that the issues continued after the revision to the policy. We also found other noncompliance as described below.

Overall Conditions

We tested all computer equipment purchases, totaling $58,708, for 48 Vocational Rehabilitation clients during the period July 1, 2014, through June 30, 2015, and we found that

- supervisors did not approve computer equipment purchases;
- a counselor did not obtain sufficient supporting documentation for a computer purchase receipt;
- counselors did not obtain the required minimum of three price quotes, did not obtain an exception for obtaining fewer than three price quotes, or did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more;
- counselors failed to document the minimum type and amount of equipment required in the clients' case files; and
- counselors failed to maintain client computer usage agreements.

We have provided specific details of each condition below.

Condition A. Supervisors did not approve computer equipment purchases

Vocational Rehabilitation counselors purchased computer equipment for clients without obtaining the necessary supervisory approval. For the 48 computer purchases, we tested the 13 purchases that required district supervisor approval. We determined that for 4 of the 13 computer equipment purchases tested (31%), the counselors purchased computer equipment for clients without obtaining the required and proper district supervisor approval.

Criteria

According to Section 46.6.3.1 and Section 46.2 of DRS' Standard Procedures Directive 46, "Purchasing and Authorization and Invoice,"

> [DRS] may purchase computer systems, CCTVs, and other assistive technology devices required to accommodate a disability, including the provision of upgrades and repairs, . . . if: The district supervisor has approved the purchase, upgrade or repair based on appropriate documentation. The case note description should be

> "Approval to Purchase a Computer" , . . . Tangible (touchable) items costing $1,000 and above requires district supervisor approval.

In order to properly approve a computer purchase, Section 46.6.3.1 of the "Purchasing and Authorization and Invoice" directive states,

> In the case note: [the district supervisor will] , . . . [e]xplain the rationale warranting approval to purchase a computer including: , . . . [s]ummary of the results of evaluations; [e]xplanation of how the equipment will be used; [t]he reasons that the equipment is required for training and/or for employment; and [d]etailed information and procedure being used. Include cost, [w]hether the purchase is through statewide contract or price quotes, etc.; and [p]rovide references to the name and location of documentation in the case file or attach any relevant documentation supporting the rationale.

Cause

The Assistant Director of Vocational Rehabilitation Services stated that the problem occurred as a result of human error.

Effect

Vocational Rehabilitation counselors purchased computer equipment that district supervisors may have deemed unnecessary had they reviewed each client's circumstances and IPEs.

Condition B. A counselor did not obtain sufficient supporting documentation for a computer purchase receipt

We determined that a Vocational Rehabilitation counselor failed to obtain sufficient supporting documentation for 1 of the 48 computer equipment purchases tested (2%). For this purchase, DRS paid $945 for the computer, but the receipt documented in the client's case file totaled $934, resulting in a difference of $11.

Criteria

Best practices dictate that all client services purchases should be fully supported by a legitimate purchase receipt.

Cause

The Director of Operations for DRS stated that the reason for the difference was "due to the counselor's error in calculating tax and a change in the discounts that the client received at the store counter." The Director also stated that the "payment was made in counselor error."

Effect

As a result of the counselor's error, DRS paid more for the computer than was supported by a purchase receipt.

Questioned Costs

Total questioned costs for this transaction are $11. The federal portion of the questioned costs is $9, and the state portion of the questioned costs is $2.

Condition C. Counselors did not obtain the required minimum of three price quotes, did not obtain an exception for obtaining fewer than three price quotes, and did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more

The Vocational Rehabilitation counselors did not obtain price quotes from at least three vendors before purchasing computer equipment costing $1,000 or more from non-contract sources. For the 48 computer purchase transactions, we reviewed the 13 transactions involving computers that cost $1,000 or more and were not purchased through state contract. We determined that for 5 of 13 computer purchases tested (38%), the counselors did not obtain the required minimum of three price quotes before purchasing the computer equipment. See Table 1 below.

Table 1: Listing of Price Quotes Obtained for Clients without Three Price Quotes

Client	Number of Price Quotes Obtained
Client 1	0
Client 2	2
Client 3	1
Client 4	1
Client 5	1

According to the Director of Operations for DRS, the computer equipment purchased for Client 1 was a reimbursement, so the required exception to justify staff obtaining fewer than three price quotes was not obtained. For Client 2's computer equipment purchase, the counselor obtained two price quotes before purchasing the computer equipment but did not obtain the required exception for obtaining fewer than three price quotes.

According to the Director of Operations for DRS, the computers purchased for Clients 3, 4, and 5 were purchased on a statewide contract and therefore did not require three price quotes. We reviewed the statewide contract in Edison, the state's accounting system, and spoke with the Contract Administrator in the Department of General Services Central Procurement Office and determined that the computers purchased were not included on the statewide contract.

In follow-up discussions to obtain clarification, the Director of Quality Assurance stated that the counselors were not required to obtain price quotes because they purchased these items from a statewide contract vendor using the DRS delegated purchase authority which allows the department to purchase items from a statewide contract vendor even though the specific items were not included in the statewide contract. However, the DRS' delegated purchase authority states that computer hardware or software should be "[b]ased on the documented lowest quote obtained from three (3) vendors, not to exceed the amount paid for computer purchases authorized by General Services Purchasing regulations, except where required to accommodate special disabilities." The Central Procurement Office's Contract Administrator, who is responsible for the statewide contract stated that agencies must purchase items specifically listed on the statewide contract to claim they met the office's competitive bid requirements. Therefore, our conclusion is that DRS staff did not comply with the intent of the competitive bid requirement.

For the remaining eight transactions involving computer purchases that cost $1,000 or more and were not purchased through state contract, we determined that for one of eight computer equipment purchases tested (13%) a Vocational Rehabilitation counselor did not purchase or obtain the required exception to purchase the computer equipment from a vendor who had not provided the lowest quote.

Criteria

According to Section 46.3.1 and Section 46.3.2 of the "Purchasing and Authorization and Invoice" directive, "Price quotes are required prior to purchasing tangible items that cost $1,000 and over that are not purchased through contract. . . . Price quotes from 3 or more different vendors are required. . . . Exceptions for obtaining price quotes must be approved by the district supervisor and may be requested for: . . . [h]aving fewer than 3 price quotes."

Cause

The Assistant Commissioner of the Division of Rehabilitation Services stated that she did not believe this was a problem; therefore, she provided no explanation as to why counselors did not obtain the required minimum of three price quotes, did not obtain an exception for obtaining fewer than three price quotes, and did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more.

Effect

Without the necessary vendor quotes, we could not verify whether the department paid the most competitive available price for the goods. Even when DRS obtained the three required quotes for a computer purchase, the department did not use the vendor with the lowest quote.

Questioned Costs

Total questioned costs for these transactions are $9,087. The federal portion of the questioned costs is $7,151, and the state portion of the questioned costs is $1,936.

Condition D. Counselors did not document the minimum type and amount of equipment required in the clients' case files

We determined that the Vocational Rehabilitation counselors failed to document the minimum type and amount of computer equipment required to meet the clients' rehabilitation needs in the clients' case files for 2 of 48 computer equipment purchase transactions tested (4%).

Criteria

According to Section 46.6.3.4 of the "Purchasing and Authorization and Invoice" directive,

> DRS can only purchase the minimum type and amount of equipment required to meet the rehabilitation needs of the client.

Cause

The Assistant Commissioner of the Division of Rehabilitation Services stated that she did not believe this was a problem; therefore, she provided no explanation as to why counselors failed to follow policy to document the minimum type and amount of computer equipment required to meet the clients' rehabilitation needs in the clients' case files.

Effect

Without documentation defining clients' computer needs, counselors cannot be certain that computer purchases were appropriate to meet the clients' documented needs.

Questioned Costs

Total questioned costs for one of these transactions is $790. The federal portion of the questioned costs is $622, and the state portion of the questioned costs is $168. We have already questioned $1,517 in costs associated with the other transaction in Condition C.

Condition E. Counselors did not obtain Client Computer Usage Agreements

The Vocational Rehabilitation counselors failed to follow policy to obtain signed Computer Usage Agreements from clients who received computer equipment through the Vocational Rehabilitation program. Of the 48 computer purchases, 38 clients were required to sign a Computer Usage Agreement in accordance with the department's revised policy. We determined that the counselors did not obtain signed agreements from 5 of the 38 clients tested (13%). DRS staff obtained and provided us with the five missing Computer Usage Agreements after we requested them. We did not question the costs associated with this issue because the lack of agreements did not negate the clients' eligibility for computer equipment.

Criteria

According to Section 46.6.3.5 of the "Purchasing and Authorization and Invoice" directive,

> Beginning February 9, 2015, the Computer Usage Agreement is only required for computer purchases where the client has not signed the newly revised IPE State of Understanding. This means if a computer purchase is already on a client's IPE and the purchase is in the process of being or has just recently been completed, a Computer Usage Agreement is required. For all new computer purchases requiring an IPE amendment on or after February 9, completion of the required IPE Statement of Understanding (which is required for all IPE amendments) will cover computer purchases in lieu of the Computer Usage Agreement.

Cause

The Assistant Commissioner of the Division for Rehabilitation Services again stated that she did not believe this was a problem; therefore, she provided no explanation as to why counselors failed to follow established policy to obtain signed Computer Usage Agreements from clients who received computer equipment through the Vocational Rehabilitation program.

Effect

Disregard of policy designed to ensure proper administration of federal programs raises concerns of management's commitment to adhere to federal requirements. Without a signed agreement on file, counselors cannot be certain that clients are aware of their responsibility to protect the computer equipment purchased by Vocational Rehabilitation from potentially harmful files, which may be included in unauthorized programs downloaded or installed onto the computer.

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment and determined that the department's leadership did not ensure the risks associated with computer equipment purchases for Vocational Rehabilitation clients were included in the department's annual risk assessment.

Summary of All Questioned Costs

Condition	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
(Condition B)	$9	$2	$11
(Condition C)	$7,151	$1,936	$9,087
(Condition D)	$622	$168	$790
Totals	$7,782	$2,106	$9,888

This finding, in conjunction with findings 2015-018, 2015-019, and 2015-020 (which also included federal questioned costs for the federal compliance requirements Activities Allowed or Unallowed or Allowable Costs/Cost Principles), results in total known federal questioned costs exceeding $10,000 for the Vocational Rehabilitation program.

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Assistant Commissioner of the Division of Rehabilitation Services should ensure that all counselors are aware of all computer equipment purchasing policies; obtain and/or maintain Computer Usage Agreements, receipts, supervisory approval, price quotes, and documentation of the minimum type of computer equipment required; and purchase equipment from the lowest-quoted vendor unless an exception is obtained.

The Commissioner should ensure that management and staff assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should ensure staff implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We do not concur.

The department does not agree with the questioned costs. These computers were included in the Individual Plan for Employment (IPE) and were approved. The amounts questioned were for activities allowed and allowable cost for the procurement of computers that were provided to eligible individuals with disabilities to allow them to fully participate in an approved service or training in order to go to work.

The department does not agree that the issues noted rise to the level of a finding for the Procurement, Suspension and Debarment requirement. The questioned cost did not exceed the $10,000 threshold for this type of requirement. As referred to by the State Auditors, the Office of Management and Budget Circular A-133, "Audit of States, Local Governments, and Non-Profits Organizations" requires reporting questioned costs of $10,000 or more for a single compliance requirement.

Eligible clients are required to sign an IPE Statement of Understanding, which includes the client's responsibility for proper use of any items purchased including computers. The Computer usage agreements are not required by federal regulations and were subsequently removed from the policy and procedures in 2015. State Audit is aware that this is not a federal requirement. The Department's management did not disregard policy or disregard adherence to the program's federal requirements.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of

federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. The expenditures may have funded an allowable activity (e.g. to purchase computers); however, the costs are questioned because management did not provide supporting documentation. The costs questioned in this finding and costs questioned in findings 2015-018, 2015-019, and 2015-020 (which also related to federal compliance requirement Activities Allowed or Unallowed or Allowable Costs/Cost Principles), resulted in total known federal questioned costs exceeding $10,000 for the Vocational Rehabilitation program.

This finding is related to Activities Allowed or Unallowed and Allowable Costs/Cost Principles, not Procurement and Suspension and Debarment. 34 CFR 361.50 requires the State unit to develop and maintain written policies covering the criteria under which each service is provided (including computer purchases). Since DHS management did not comply with its written policies governing when computers would be provided to clients, providing computers was an unallowable activity for purchases identified in this finding. In addition, computer purchases were not always adequately documented, which represents noncompliance with Allowable Costs/Cost Principles.

Finding Number	2015-038
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

Vocational Rehabilitation counselors did not always develop clients' Individualized Plan for Employment within 90 days, obtain extension agreements, meet the extension deadline, or obtain extension agreements within 90 days

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services through its Division of Rehabilitation Services (DRS). Once a client has been determined eligible for services but before those services may begin, a Vocational Rehabilitation counselor must develop an Individualized Plan for Employment (IPE) that specifies the services the client will receive to meet his or her employment goals. Clients cannot receive planned services, such as job readiness training and job development, unless these services have been included in a completed IPE.

When counselors are unable to develop an IPE within 90 days of the client's eligibility determination date, as required by the *United States Code*, federal regulations require the department to obtain an agreement with the client to extend the time for completing the IPE. The 90-day requirement was effective July 22, 2014, when Title IV of the Workforce Innovation and Opportunity Act amended Title I of the Rehabilitation Act of 1973, which amended the *United States Code*. In order to ensure that IPEs are developed no later than 90 days after a client's eligibility has been determined, DRS management stated that they use a monthly 1024 Report that tracks the status of the IPE and the counselor's next steps for client cases where client eligibility has been determined but an IPE has not been completed within 60 days of the eligibility determination.

Condition

IPEs Not Developed Timely and Extension Agreements Not Obtained Timely

We tested a nonstatistical, random sample of 57 clients from the 7,105 clients who began receiving benefits during fiscal year ended June 30, 2015. We found that for 15 of 57 clients tested (26%) with an eligibility determination date between July 22, 2014, and June 30, 2015, Vocational Rehabilitation counselors did not develop an IPE either within 90 days of the eligibility determination date or by the extension date, and/or did not obtain the client's agreement to the extension within 90 days of the eligibility determination date. For 13 of the 15 clients, the counselors developed the clients' IPEs between 3 and 161 days late and had not entered into an agreement with the client establishing an extension to develop the IPE. For the 2 of 15 clients who had an extension agreement, the counselors obtained the extension agreements 104 and 154 days after the eligibility determination date and the IPE for one of the clients was developed 19 days after the extension date.

Monthly 1024 Reports Not Maintained and Follow-up Actions Not Documented

We also found that DRS management did not establish internal controls to ensure that all monthly 1024 Reports were maintained and follow-up actions were documented in order to ensure that clients' IPEs were developed based on the 90-day requirement. While gaining an understanding of management's control process at the beginning of fieldwork, the Director of Vocational Rehabilitation stated that the 1024 Reports were used to ensure that IPEs were developed within 90 days of a client's eligibility determination date, and the Assistant Director of Vocational Rehabilitation further described the process to use the reports to meet this federal requirement. When we requested all the 1024 Reports for the audit period, July 1, 2014, through June 30, 2015, during fieldwork, the Assistant Director provided the June 2015 report, but stated that the reports for July 2014 through May 2015 were securely purged because the reports were for her own personal use. In addition, the Assistant Director stated she does not document the follow-up communications or actions taken in response to information contained in the monthly 1024 Reports. As a result, we could not evaluate the effectiveness of management's described process controls to assist management in achieving compliance with the federal requirements.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment and determined that top management did not address the risks associated with IPE completion for Vocational Rehabilitation in the department's annual risk assessment.

Criteria

Title 29, *United States Code*, Chapter 16, Section 722(b)(3)(F), states,

> The individualized plan for employment shall be developed as soon as possible, but not later than a deadline of 90 days after the date of the determination of eligibility . . . unless the designated State unit and the eligible individual agree to an extension of that deadline to a specific date by which the individualized plan for employment shall be completed.

Cause

Even though we found violations (a 26% error rate based on the sample tested) of the federal requirement to develop a client's IPE within 90 days of the client's eligibility determination date, the Assistant Commissioner of Rehabilitation Services stated that she did not believe this was a problem; therefore, no explanation was provided why counselors did not complete the clients' IPEs timely or obtain an agreement with the client to extend the time to complete the IPE timely.

Effect

Noncompliance with established federal guidelines for developing IPEs results in unnecessary delays for clients who are eligible for services.

Recommendation

The Assistant Commissioner of Rehabilitation Services should ensure that Vocational Rehabilitation counselors develop the clients' IPEs within the 90-day period or by the agreed-upon extension. When the IPE cannot be developed within the original 90-day period, the Assistant Commissioner should ensure the counselors obtain documentation within the 90-day period to support the counselor and client's agreement to extend the completion date. The Assistant Commissioner should implement effective internal controls which ensure that clients' IPEs are developed no later than 90 days after a client's eligibility has been determined.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

The Department has measures in place that indicate to staff when the deadline to obtain an extension is approaching. We agree that every counselor in the VR program did not always develop clients' Individualized Plan for Employment within 90 days, obtain extension agreements, meet the extension deadline, or obtain extension agreements within 90 days as stated by State Audit. However, almost always, VR counselors met the requirements. The Department implemented new regulations through a change in procedures on March 30, 2015. Therefore, we do not agree for those clients referenced whose extension requirements were in effect prior to March 30, 2015.

The referenced "1024 Report" is not an official State or Federal report. Rather the referenced document is an internal management tool, similar to a "to do" list, that a supervisor may utilize. As such, it is not retained beyond the time period that is useful for its intended purpose. The official control for all status and official client information tracking is the VR Program's case management system, Tennessee Rehabilitation Information Management System (TRIMS). That system provides live data and user feedback on all client statuses and is the source for any officially generated report. During the audit, State Auditors requested and received access to TRIMS.

All referenced clients were eligible for VR services. The Department has taken necessary corrective measures with employees who did not follow the prescribed timelines. This is being monitored by VR supervisory staff. This is not a systemic issue and does not represent a significant risk.

Auditor’s Comment

The federal requirement became effective July 22, 2014; however, management did not implement their internal policy to address the federal requirement until March 30, 2015. As a result, management was not in compliance with the federal regulations for clients noted in this finding.

Management’s comment regarding TRIMS is not relevant to the condition reported in this finding.

Finding Number	2015-039
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services' fiscal staff did not use the correct template for the Annual Vocational Rehabilitation Program/Cost Report, could not provide supporting documentation for financial data used in the report, and submitted inaccurate reports based on incorrect data

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services (DRS), which is required to submit its Annual Vocational Rehabilitation Program/Cost Report (RSA-02) to Rehabilitation Services Administration (RSA), a division under the U.S. Department of Education, by December 31 every year. RSA uses the report to make performance and financial decisions about the Vocational Rehabilitation program.

An accountant within DHS' fiscal staff is responsible for compiling Vocational Rehabilitation program data from Edison, the state's accounting system, and the Tennessee Rehabilitation Information Management System and then using the data to prepare the RSA-02 report. A different accountant enters the information into RSA's Management Information System (RSA-MIS). The Fiscal Director of the Vocational Rehabilitation program reviews the prepared report and approves it within RSA-MIS.

Condition

We reviewed DRS' RSA-02 report for the federal year ended September 30, 2014, and the supporting documentation used to prepare the report. Based on our review, we found that the Fiscal Director, during his review of the RSA-02 report, failed to identify that the Accountant responsible for preparing the RSA-02 report

- did not use the correct form to prepare the report, which resulted in DHS reporting incorrect financial data;

- could not provide supporting documentation for reported expenditures of $11,738,394 and $6,222,573;
- overreported labor hours by 27,300; and
- included unallowable ($1,024,188) and unidentifiable (negative $403) expenditures on the report.

Incorrect Form Used and Incorrect Financial Data Reported

The Accountant who prepared the RSA-02 report used the July 2013 template to prepare the report instead of the version of the template RSA revised in October 2013. The revised report format contained fewer line items than the previous template. The accountant stated that he did not know that an updated version of the report template was available when he prepared the report. A second Accountant, who entered the information into RSA-MIS, also failed to recognize that the prepared report format was outdated and that the federal grantor had updated RSA-MIS to reflect the October 2013 template changes; as a result, the second Accountant entered the financial data on the wrong reporting lines. See table 1 below.

Table 1
Prepared vs. Reported Financial Data
(Schedule I, Section 1, of the RSA-02 report)

Prepared – July Template		Reported – October Template	
Administration Expenditures	**Amount**	**Administrative Expenditures**	**Amount**
A. Administrative Personnel Costs	$8,188,616.00		
B. Direct Administration Costs	$3,549,778.00	A. Direct Administration Costs	$8,188,616.00
C. Indirect Costs	$7,408,058.00	B. Indirect Costs	$3,549,778.00
D. Administration Expenditures for the SE Program Included in 1.A, 1.B, and 1.C		C. Administration Expenditures for the SE Program Included in 1.A, 1.B, and 1.C	$7,408,058.00

Accountant Could Not Explain His Expenditure Allocation Methodology

When we discussed the RSA-02 report with the Accountant who served as preparer, we discovered that he was unable to explain the method he used to allocate administrative financial amounts of $11,738,394 between "Administration Personnel Costs" and "Direct Administration Costs." We were able to verify the administrative amounts in total using supporting documentation but not by the individual allocations for personnel and direct costs.

Financial Data Did Not Agree to Supporting Documentation

We also found that the Accountant who prepared the RSA-02 report could not provide documentation to support expenditures (totaling $6,222,573) used in the financial data calculation. According to this Accountant, the expenditure amount was a plug to ensure that the total amounts for Schedule I and Schedule III reconciled and did not trace to any supporting documentation.

Incorrect Labor Hours Were Reported

Our review of the RSA-02 supporting documentation revealed that the Accountant who served as preparer miscalculated the labor hours reported for "Staff Supporting Counselor Activities." The Accountant used the incorrect number of employees in his calculation, leading to the overreporting of labor hours by 27,300.

Unallowable Expenditures Were Included in the Report

Based on our RSA-02 report testwork, we determined that the Accountant preparer included expenditures for the Tennessee Council for the Deaf and Hard of Hearing totaling $1,024,188. When we reviewed the Vocational Rehabilitation 2015 State Plan, we noted that the plan did not provide for the council to assist in the cost of the program's services or administrative costs and that those council costs were not allowable for the program. Furthermore, council expenditures are state-funded, and state-funded expenditures do not belong in the federal report. Because of these incorrect assumptions, the Accountant overreported the Vocational Rehabilitation program's expenditures by $1,024,188.

Unidentifiable Expenditures Included in the Report

Based on our review of the supporting documentation used to prepare the RSA-02 report, we noted that the Accountant preparer included expenditures totaling a negative $403 (a reduction of expenditures) in the financial data of the report but did not have a project ID identified.[37] Without this information, we could not determine whether DRS properly reported these expenditures.

Given the problems identified during our fieldwork, we also reviewed the DHS November 2014 Risk Assessment and determined that management identified the risk that federal reports would not be accurate or that the data presented in the reports would not agree with the accounting reports. Management classified the risks high with a remote likelihood the risk would occur. As a result of management's classification of these risks, mitigating controls were not required to be identified in the risk assessment. As evidenced by the conditions we have reported above, we believe management has not properly identified risks and mitigating controls impacting this federal grant.

[37] Project IDs are used in Edison to identify the funding sources' expenditure transactions.

Criteria

According to Title 34, *Code of Federal Regulations* (CFR), Part 80, Section 20(b)(1),

> The financial management systems of other grantees and subgrantees must meet the following standards. . . . Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

In addition, 34 CFR 361.3 states that in order to be an allowable cost, an expenditure must "assist in [t]he costs of providing vocational rehabilitation services under the State plan; [or a]dministrative costs under the State plan."

Cause

The Accountant responsible for preparing the RSA-02 report used inaccurate financial data, and although the Fiscal Director reviewed the report, he failed to identify these errors. As a result, fiscal staff reported the inaccurate financial data in RSA-MIS. The Fiscal Director stated that he only performed a high-level review of the RSA-02 report which did not identify the problems noted above.

Effect

When DHS' fiscal staff include inaccurate financial data in their federally required report, neither the state nor the federal grantor can make accurate programmatic and fiscal decisions. Furthermore, the staff heighten the risk that the federal grantor will disallow the department's unsupported program costs based on inaccurate reporting.

Recommendation

The Commissioner and the Director of Operations – Fiscal and Budget in the Department of Human Services should ensure that all staff responsible for preparing federal reports are knowledgeable of the most current reporting requirements, that financial data reported within the reports is supported, and that a thorough review of the report is performed prior to submitting the report to the federal grantor.

The Commissioner should assess all significant risks, including the risks noted in this issue, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner. The Commissioner should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

The Department agrees that the reported amounts on the RSA-02 report were not aligned correctly in accordance with the Policy Directive (PD) 14-02 format; however, the total expenditures reported was correct.

We do not agree that the Department did not provide supporting documentation for the $11,738,394 and $6,222,575. The supporting documents for the RSA-02 report were provided to the State Auditors. Without the supporting documents provided, the State Auditors would not have been able to identify activity that was included inadvertently in the RSA-02 report. It should also be noted State Audit had access to the department's TRIMS data as well as their access to Edison.

Additionally, we agree that the Department's "Labor Hours" reported were incorrect. However, State Audit did not include in their calculation the "Labor Hours" of several support staff within the fiscal unit. Therefore, State Audit calculated total "Labor Hours" incorrectly as well.

The Department identified in the RSA-02 report, prior to State Audit testwork and disclosure, that we were already taking corrective action. In December 2015, we submitted the RSA-02 report for the period ended September 30, 2015.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

Auditor's Comment

Although DHS staff provided spreadsheets they used to calculate the data reported on the RSA-02 report, we could not trace the spreadsheets to Edison, the state's official accounting system. We requested during our fieldwork all documentation to support the RSA-02 report and management did not provide it.

Finding Number	2015-040
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Program Income
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services' fiscal staff did not record Vocational Rehabilitation program income properly, did not treat program income consistently, and did not establish adequate controls over program income requirements to ensure federal compliance

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services.

The federal government pays 78.7% of Vocational Rehabilitation expenditures with the remaining 21.3% funded from non-federal sources such as state and local government funds, as well as private contributions. In order to ensure that matching requirements are met and that all grant activity is accounted for properly, fiscal staff uses Edison, the state's accounting system, to track the funding sources for each transaction under the grant. According to Title 34, *Code of Federal Regulations* (CFR), Part 361, Section 63(a - c),

> [P]rogram income means gross income received by the State that is directly generated by an activity supported under this part [State Vocational Rehabilitation Services Program]. . . . Sources of program income include, but are not limited to, payments from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes, payments received from workers' compensation funds, fees for services to defray part or all of the costs of services provided to particular individuals, and income generated by a State-operated community rehabilitation program. . . . [P]rogram income, whenever earned, must be used for the provision of vocational rehabilitation services and the administration of the State plan. . . . Payments provided to a State from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes may also be used to carry out programs under . . . (client assistance), . . . (supported employment), and . . . (independent living).

According to the Fiscal Director, the department derives program income from two sources: Social Security Administration (SSA) reimbursements for the cost of Vocational Rehabilitation services and Tennessee Rehabilitation Center contract (TRC) receipts for work performed by clients.

Vocational Rehabilitation Program federal regulations permit the state to use either the deduction or addition method for program income. In the deduction method, federal and non-federal expenditures are reduced by the amount of program income received, which results in reduced federal draws from the U.S. Department of Education, as well as a reduction in the non-federal matching expenditures claimed by the state. In the addition method, the amount of program income received increases the total amount of funds committed to the grant agreement by the state and federal agency.

Vocational Rehabilitation federal regulations permit funding to be used to provide management services and vending equipment to blind vendors in the Randolph Sheppard Vending Facility (Randolph Sheppard) program. The state retains a portion of the net proceeds of each vending facility in the program and any income from vending machines on federal property. Fiscal staff refers to the retained proceeds as "Set-Aside" revenue, and it is not considered Vocational Rehabilitation program income. Vocational Rehabilitation Set-Aside revenue should be accounted for separately from Vocational Rehabilitation program income.

Condition

Program Income Was Not Accounted for Properly

Based on review of the accounting records, we found that the Fiscal Director did not ensure that fiscal staff properly recorded receipts and disbursements of Vocational Rehabilitation program income during the audit period, July 1, 2014, through June 30, 2015.

Specifically, fiscal staff improperly recorded the funding source for

- SSA program income receipts totaling $6,091,186 as federal, nongovernment, and state revenue instead of properly classifying the receipts' funding source as program income; and
- SSA and TRC program income disbursements totaling $7,051,274 as federal, nongovernment, and state expenditures instead of properly classifying the disbursements' funding source as program income.

In addition, fiscal staff improperly recorded SSA and TRC program income receipts totaling $453,276 as deferred revenue instead of earned revenue. See finding 2015-016 for additional information regarding Vocational Rehabilitation program income that was improperly recorded in deferred revenue accounts.

We also found that fiscal staff improperly recorded the funding source for expenditures totaling $1,489,612 and revenue transactions totaling $503,814 as program income instead of properly classifying the expenditure and revenue transactions' funding source as state and federal.

Program Income Was Not Treated Consistently

Based on our review of the accounting records, we found that the Fiscal Director did not ensure that Vocational Rehabilitation program income was treated consistently. Specifically, fiscal staff used both the addition and deduction methods for program income. The *Code of Federal Regulations* permits the state to use either the addition method or the deduction method for Vocational Rehabilitation, but does not authorize the state to use both methods simultaneously. When transferring the SSA program income to other federal programs administered by DHS as allowed by the *Code of Federal Regulations*, fiscal staff used the addition method; for all other expenditures, fiscal staff used the deduction method to reduce total allowable costs.

Inadequate Controls Over Program Income

Based on our review of accounting records in Edison, we identified numerous deficiencies in the design of internal controls related to program income for the Vocational Rehabilitation program, including the following.

a. The *Edison Grants Accounting Manual* provides instructions on how to establish, maintain, and report grant activity for all departments of the state. We found that fiscal staff did not always follow the accounting practices in the *Edison Grants Accounting Manual* to account for SSA program income. Fiscal staff established inconsistent accounting practices to account for program income revenues and expenditure transactions. We noted that fiscal staff recorded the funding source for program income transactions as nongovernmental, federal, and/or state revenue, depending on the circumstances, instead of recording the funding source as program income for all transactions.

b. Secondly, based on discussion with the Fiscal Director, he was aware that Set-Aside revenue from the Randolph Sheppard program was not considered program income for the Vocational Rehabilitation program; however, fiscal staff blended the Randolph Sheppard revenue with Vocational Rehabilitation program income by recording receipts and disbursements of the Set-Aside revenue as receipts and disbursements of Vocational Rehabilitation program income. As a result of the misclassification of receipts and disbursements of the Set-Aside revenue, the Vocational Rehabilitation accounting records for program income were misleading and inaccurate.

c. Fiscal staff did not ensure that automated controls in Edison were properly configured. Specifically, whenever program income was received from TRC, Edison automatically generated accounting entries that reduced revenue by 78.7% of the program income received. Because this was the reduction of revenue originally recorded with a federal funding source, the revenue reduction should have also had an identified federal funding source. Instead, Edison was improperly configured to reduce program income revenue, and fiscal staff did not establish internal controls to ensure the accounting records were correct. As a result, revenue from program income was understated in Edison.

d. The *Edison Grants Accounting Manual* indicated that, when the deduction method is used, the receipt of program income increases program income expenditures and reduces state and federal expenditures by their respective shares. The manual did not identify how this process should be completed, and fiscal staff did not establish internal control procedures to ensure the funding sources for expenditures were properly reclassified when the deduction method was used to disburse program income. As a result, federal and state expenditures for the Vocational Rehabilitation program were overstated, and program income expenditures were understated.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. Management classified the impact as small and likelihood as remote for the risk that revenue is not recorded in accordance with Generally Accepted Accounting Principles due to inadequate training of accounting personnel and the risk that revenue is recorded in incorrect revenue categories. Management classified the impact as high and the likelihood as remote for risk that program income is not used according to requirements of the grant award. As a result of management's classification of these risks, management was not required to identify mitigating controls for these risks. Although the mitigating controls were not required to be identified, we believe management has not properly identified risks and mitigating controls affecting this federal grant as evidenced by the conditions we have reported above.

Criteria

According to 34 CFR 361.63(c),

> (1) Program income is considered earned when it is received. . . . (3) The State is authorized to treat program income as—[a]n addition to the grant funds to be used for additional allowable program expenditures . . . or [a] deduction from total allowable costs.

In addition, 34 CFR 80.20(b)(2) states,

> Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.

Cause

When we asked the Director of Operations – Fiscal and Budget why these problems occurred, he provided a written response, but the response did not address our question. As such, we cannot definitively comment as to why management did not comply with the federal requirements for program income.

Effect

When fiscal staff does not have a process to ensure program income funds are accurately reflected in the accounting records, management cannot ensure program income is used and reported according to federal regulations.

Recommendation

The Commissioner and the Director of Operations – Fiscal and Budget should establish adequate internal controls to address the control deficiencies identified in this finding. Specifically, the Commissioner and Director of Operations – Fiscal and Budget should ensure that all program income is properly recorded in an earned revenue account when it is received and that only true program income activity is classified as such in the accounting records. The Director of Operations – Fiscal and Budget should also ensure that program income is treated consistently by selecting and using one of the two alternatives—the addition method or the deduction method.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur.

The Department submitted a corrective action plan for the Vocational Rehabilitation Program to the Federal awarding agency. The Federal awarding agency indicated it was a well thought out corrective action plan and accepted it with no changes. The corrective action plan addresses the audit concerns identified in this finding. It should be noted that State Audit has reviewed this program eight times since 2004 and did not identify this issue until it was brought to their attention by our federal partners during the development of the corrective action plan. It should be noted that findings 2015-040, 2015-041, 2015-042, and 2015-043 are all related and not separate and distinct issues.

Historical procedural errors identified date back at least 20 years. This was a long standing issue that came to light prior to this administration and the Department has corrected the procedures. Additionally, the Department has taken action to address a personnel issue that was a major contributing factor to this matter.

Although the Department recognizes the challenges that are being addressed, it must be noted that the Department has not misused or otherwise misappropriated federal funds and all funds have been utilized for eligible VR services; this can be documented. Moreover, since 2011, the VR program has increased the number of successful employment outcomes for

Tennesseans with disabilities by 36%. The VR program has realized positive program outcomes, including but not limited to the following:

- 8% increase from FY2011-FY2016 of the number of Transition from School to Work contracts, which has resulted in expanded transition services to a greater number of students with disabilities throughout Tennessee;

- in 2014, revamped the Vocational Training Programs at Tennessee Rehabilitation Center at Smyrna in order to increase successful employment outcomes based on labor market trends and employer demands for the Tennessee workforce;

- 24% increase since 2011 of the number of Master's level Vocational Rehabilitation Counselors and staff delivering direct client services through the Comprehensive System of Personnel Development;

- 7.72% increase between October 2014 - October 2015, of the timeliness process for determining eligibility for services within the 60 day timeframe in accordance with federal regulations; and

- increased the number of partnerships with other state agencies to increase the number of people with disabilities in employment, particularly to those who are theoretically harder to place in competitive, integrated employment. Partnerships have resulted in an increase in successful employment outcomes for persons with significant mental health disorders and intellectual/developmental disabilities.

Since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so. This item that was first identified by the Department is an example of the focus on solutions.

Auditor's Comment

As management stated, we have audited this program eight times since 2004; however, management cannot rely on external audits as its only means to ensure its compliance with federal grant regulations. Audits are performed after the grant award and are based on sampling methods, not 100% review of all departmental transactions.

Finding Number	2015-041
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Period of Performance
Questioned Costs	$22,186,782
Repeat Finding	N/A

The Department of Human Services did not meet period of performance requirements for Vocational Rehabilitation Grants to States, resulting in questioned costs of $22,186,782

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services.

The federal government pays 78.7% of Vocational Rehabilitation expenditures, and the remaining 21.3% is funded from non-federal sources. For the Vocational Rehabilitation program, non-federal funding includes state and local government funds as well as private contributions.

The period of performance is the period during which a grant recipient may obligate federal funds. Grant recipients obligate federal and non-federal funds in a variety of ways, including entering into contracts, awarding subgrants, or receiving goods and services.

Vocational Rehabilitation funds have an initial period of performance that ends on the last day of the federal fiscal year for which the funds were granted. In addition, Vocational Rehabilitation has a carryover provision that allows grantees to extend the initial period of performance for one year if certain requirements are met.

Specifically, to obligate federal Vocational Rehabilitation funds in the succeeding federal fiscal year (that is, to carryover federal Vocational Rehabilitation funds), the state must obligate the non-federal share in the federal fiscal year for which the federal funds were appropriated. For example, assume a state is awarded a federal Vocational Rehabilitation grant award totaling $787 for the federal fiscal year October 1, 2014, through September 30, 2015 (FFY 2015), but the state chooses to obligate the entire federal award in FFY 2016 instead of FFY 2015. For a state to receive $787 in federal Vocational Rehabilitation funds, the state must obligate a total of $1,000 – $787 in federal funds and $213 in non-federal funds. Therefore, in this example, the state must obligate $213 in non-federal funds by September 30, 2015, for the state to be permitted to obligate $787 in FFY 2015 federal grant funds in FFY 2016.

As a result of this requirement, the state cannot merely match federal Vocational Rehabilitation expenditures at the required non-federal percentage as expenditures are incurred to meet the carryover provisions for federal Vocational Rehabilitation funds.

Since at least FFY 2012, DHS has reported in its SF-425 reports submitted to the U.S. Department of Education that DHS has carried over all of its Vocational Rehabilitation awards, rather than expending any of the awards in each fiscal year of appropriation. Our audit objective was to determine if the department met the grant's carryforward requirements.

Based on review of records from Edison, the state's accounting system, DHS expended a total of $57,196,576 in federal Vocational Rehabilitation funds during the audit period, July 1, 2014, through June 30, 2015. We tested all payroll, benefits, travel, and public utility expenditures, totaling $23,634,039, charged to federal Vocational Rehabilitation funds during the audit period to determine whether carryover requirements for federal Vocational Rehabilitation funds were met.

After excluding all payroll, benefits, travel, and public utility expenditures, we selected a sample of 37 Vocational Rehabilitation expenditures, totaling $556,691, from the remaining population of $33,562,537 in Vocational Rehabilitation expenditures to determine whether these 37 expenditures were carried forward properly.

In addition to the carryover requirement, no later than 90 days after the end of the period of performance, the state must liquidate[38] all Vocational Rehabilitation obligations incurred under the award.

<u>Condition</u>

To determine whether the department complied with carryforward and liquidation requirements, we discussed management's controls, reviewed accounting records, and selected a sample (as described above) to test obligations and expenditures. We found that the Fiscal Director did not ensure that period of performance requirements regarding the carryover and liquidation of federal Vocational Rehabilitation funds were met. Based on our carryover testwork, we determined that department staff charged $21,630,368 of the $23,634,039 in payroll, benefits, travel, and public utility expenditures (92%) to federal funds during the audit period, July 1, 2014, through June 30, 2015, even though the department had improperly carried over the federal funds. Specifically, DHS had not met the Vocational Rehabilitation carryover requirements by obligating the non-federal share in the fiscal year for which the federal funds were appropriated. See Table 1 below for additional information.

[38] Because DHS uses accrual accounting, obligations are considered liquidated when the corresponding expenditure for the obligation has been recorded.

Table 1: Federal Vocational Rehabilitation Funds Improperly Carried Forward and Used for Payroll, Benefits, Travel, and Public Utility Expenditures (PBTB)		
FFY of Grant Award	**Improper Carryovers for PBTB**	**Total PBTB Expenditures**
FFY 2013	$4,252,007*	$4,252,007
FFY 2014	$17,378,361**	$19,382,032
Total	**$21,630,368**	**$23,634,039**

*Improperly obligated between July 1, 2014, and September 30, 2014.
**Improperly obligated between October 1, 2014, and June 30, 2015.

For expenditures other than payroll, benefits, travel, and public utility expenditures, we found that, for 34 of 37 transactions tested (92%), the expenditures were charged to federal Vocational Rehabilitation funds even though the department again had not met carryover requirements. Of our sample total, $556,691, we found that $556,060 was improperly carried over to the next federal fiscal year. Specifically, $2,086 of DHS' federal FFY 2013 grant award was improperly obligated between July 1, 2014, and September 30, 2014, and $553,974 of DHS' federal FFY 2014 grant award was improperly obligated between October 1, 2014, and June 30, 2015.

In addition, after excluding the 34 expenditures for which carryover requirements were not met, we noted that for one of three remaining expenditures tested (33%), the underlying obligation was incurred within the period of performance, but department staff did not liquidate the obligation within 90 days after the end of the period of performance. The expenditure was liquidated 10 days late. The dollar amount of the sample was $631, and $354 of the sample was liquidated improperly.

We concluded that DHS management did not establish controls to ensure that sufficient non-federal funds were obligated in the initial grant year to permit carryover of federal funds. Instead, Edison, automatically split virtually all expenditures so that 78.7% of each expenditure was charged to federal funds and 21.3% was charged to state funds. This funding mechanism prevents sufficient federal funds from being obligated to meet the carryover requirement. To carryover Vocational Rehabilitation funds, DHS should have obligated non-federal funds in amounts over the 21.3% matching percentage by entering into written commitments for allowable purposes.

In addition, as evidenced by DHS' semi-annual SF-425 report submissions, DHS staff were generally unable to properly accumulate its unliquidated obligations or provide obligation information for expenditures already incurred.

Given the problems identified during our fieldwork, we also reviewed DHS' November 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner did not ensure the risks or mitigating controls associated with obligating and liquidating federal funds in accordance with period of performance requirements were included in the department's risk assessment.

Criteria

Concerns related to DHS' carryover and reporting practices, among other factors, resulted in the Rehabilitation Services Administration (RSA) within the U.S. Department of Education identifying DHS' Vocational Rehabilitation program as high-risk. The high-risk letter from RSA, dated November 2, 2015, clarifies the Vocational Rehabilitation carryover provisions:

> Section 19 of the Rehabilitation Act permits [DHS] to carryover unobligated [Vocational Rehabilitation] funds into the succeeding fiscal year only to the extent that it provided sufficient match for those funds during the fiscal year of appropriation (see also [Title 34, *Code of Federal Regulations* (CFR), Part 361, Section 64(b)]).

According to 34 CFR 361.64(b),

> Federal funds appropriated for a fiscal year remain available for obligation in the succeeding fiscal year only to the extent that the State met the matching requirement for those Federal funds by obligating, in accordance with 34 CFR 76.707, the non-Federal share in the fiscal year for which the funds were appropriated.

Per 34 CFR 80.23(b),

> A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation)...

Cause

DHS management did not appear to be familiar with the timing of Vocational Rehabilitation obligations and how regulations affected its ability to carry over federal funds.

Further, the method DHS fiscal staff used to report non-federal expenditures on its SF-425 reports resulted in users of the report concluding that DHS had met carryforward provisions when, in fact, it had not. Specifically, users of these Vocational Rehabilitation SF-425 reports would normally conclude that if a grantee's report includes non-federal expenditures, but no federal expenditures, the grantee may carry over federal grant funds.

Based on review of accounting records, DHS split each expenditure and reported the expenditure on two separate SF-425 reports: the federal share that was improperly carried over was included as an expenditure on the report for the prior year's grant award, and the non-federal share was included as a non-federal expenditure on the report for the current year's grant award.

This practice resulted in SF-425 reports for the current year's grant award that included non-federal expenditures but no federal expenditures; therefore, users of the report concluded that DHS was permitted to carry over federal grant funds into the next fiscal year. Carryover was not permissible, however, because DHS had already used the current year's non-federal expenditures to match prior-year federal funds (which had been improperly carried forward).

For example, assume DHS received a $78.70 FFY 2014 federal grant award and spent none of the award in FFY 2014. Instead, DHS improperly carries forward the federal FFY 2014 funds into FFY 2015, and spends the entire award in FFY 2015 by making a $100 payment ($78.70 in federal FFY 2014 funds improperly carried forward and $21.30 in non-federal funds).

Following DHS' improper reporting practices, DHS would have reported $21.30 (the non-federal share) on the SF-425 report for the FFY 2015 grant award, and would have reported the $78.70 (the federal funds improperly carried forward) on the SF-425 report for the FFY 2014 grant award. Because the SF-425 for FFY 2015 would report $0 in federal expenditures and $21.30 in non-federal expenditures, report users would conclude that DHS was permitted to carryover $78.70 of its FFY 2015 grant award to FFY 2016. However, since DHS actually used the $21.30 in FFY 2015 non-federal expenditures to match FFY 2014 federal funds improperly carried forward, the $21.30 cannot be used again to match FFY 2015 funds carried forward to FFY 2016.

Because the SF-425 reports were misleading, DHS could not use SF-425 reports to detect when carryover requirements were not met.

Effect

Without the ability to properly accumulate its unliquidated obligations or provide obligation information for expenditures already incurred, DHS was unable to demonstrate compliance with carryover requirements. The failure to comply with carryover requirements generally resulted in failure to comply with liquidation requirements as well.

Because DHS did not obligate sufficient non-federal funds to permit carryover into the next federal fiscal year, the U.S. Department of Education may conclude that federal expenditures incurred with carryover funds were not allowable and, therefore, are subject to recovery.

According to 34 CFR 361.65(b)(2), the U.S. Department of Education reallots Vocational Rehabilitation grant funds to other states if the original grantee is not expected to use those funds. As a result, obligating federal funds outside of the period of performance essentially results in Tennessee using Vocational Rehabilitation funds that would have otherwise been used by other states.

Questioned Costs

Because DHS improperly obligated federal funds from the FFY 2013 and FFY 2014 federal grant awards for payroll, benefits, travel, and public utility expenditures during the audit period, July 1, 2014, through June 30, 2015, we questioned $4,252,007 of DHS' federal FFY 2013 grant award and $17,378,361 of DHS' federal FFY 2014 grant award. For expenditures other than payroll, benefits, travel, and public utility expenditures, we questioned $556,060 charged to federal Vocational Rehabilitation funds during the audit period. We also questioned $354 of DHS' federal FFY 2014 grant award due to the failure to liquidate federal funds within 90 days after the end of the period of performance.

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner of the Department of Human Services should ensure that DHS ceases the carryover of federal Vocational Rehabilitation funds until DHS fiscal staff establish a proper funding mechanism for ensuring that carryover requirements are met (such as entering into written commitments that obligate only non-federal funds to meet the match requirement for carryover funds) and until DHS fiscal staff establish internal controls that provide for accurate and timely determinations regarding obligation dates, funding sources, and amounts.

Further, in the event that DHS staff determine that DHS will be unable to liquidate obligations within the required time frame, DHS staff should contact the federal awarding agency to request an extension.

Finally, the Commissioner should ensure that the department's annual risk assessment includes the risks and mitigating controls associated with obligating and liquidating federal funds in accordance with period of performance requirements.

Management's Comment

We concur in part.

The Department submitted a corrective action plan for the Vocational Rehabilitation Program to the federal awarding agency. The federal awarding agency indicated it was a well thought out corrective action plan and accepted it with no changes. The corrective action plan addresses the audit concerns identified in this finding. It should be noted that State Audit has reviewed this program eight times since 2004 and did not identify this issue until it was brought to their attention by our federal partners during the development of the corrective action plan. It should be noted that findings 2015-040, 2015-041, 2015-042, and 2015-043 are all related and not separate and distinct issues.

Historical procedural errors identified date back at least 20 years. This was a long standing issue that came to light prior to this administration and the Department has corrected the procedures. Additionally, the Department has taken action to address a staffing issue that was a major contributing factor to this matter.

Although the Department recognizes the challenges that are being addressed, it must be noted that the Department has not misused or otherwise misappropriated federal funds and all funds have been utilized for eligible VR services; this can be documented. Moreover, since 2011, the VR program has increased the number of successful employment outcomes for Tennesseans with disabilities by 36%. The VR program has realized positive program outcomes, including but not limited to the following:

- 8% increase from FY2011-FY2016 of the number of Transition from School to Work contracts, which has resulted in expanded transition services to a greater number of students with disabilities throughout Tennessee;
- in 2014, revamped the Vocational Training Programs at Tennessee Rehabilitation Center at Smyrna in order to increase successful employment outcomes based on labor market trends and employer demands for the Tennessee workforce;
- 24% increase since 2011 of the number of Master's level Vocational Rehabilitation Counselors and staff delivering direct client services through the Comprehensive System of Personnel Development;
- 7.72% increase between October 2014-October 2015, of the timeliness process for determining eligibility for services within the 60 day timeframe in accordance with federal regulations; and
- increased the number of partnerships with other state agencies to increase the number of people with disabilities in employment, particularly to those who are theoretically harder to place in competitive, integrated employment. Partnerships have resulted in an increase in successful employment outcomes for persons with significant mental health disorders and intellectual/developmental disabilities.

Since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

<u>Auditor's Comment</u>

Management states in their comments that they did not misuse federal funds; however, management violated federal requirements by improperly spending the Vocational Rehabilitation funds in the wrong federal fiscal years.

As management stated, we have audited this program eight times since 2004; however, management cannot rely on external audits as its only means to ensure its compliance with federal grant regulations. Audits are performed after the grant award and are based on sampling methods, not 100% review of all departmental transactions.

Finding Number	2015-042
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not establish adequate controls over maintenance of effort requirements and did not ensure that the U.S. Department of Education reduced the Vocational Rehabilitation award by the correct maintenance of effort deficit

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation (VR) is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services. DHS is subject to federal maintenance of effort requirements related to its VR expenditures from non-federal sources. Specifically, for any given federal fiscal year, DHS must spend at least as much on VR from non-federal sources as it did in the second preceding federal fiscal year. For example, for the federal fiscal year October 1, 2013, through September 30, 2014 (FFY 2014), DHS was required to spend at least as much on VR from non-federal sources as it did during FFY 2012. In this example, the amount of expenditures from non-federal sources during FFY 2012 would be the maintenance of effort threshold for FFY 2014. The U.S. Department of Education uses information reported in federal financial report SF-425 to determine whether DHS has met maintenance of effort. If DHS' SF-425 reports demonstrate that DHS did not spend at the level required, then the U.S. Department of Education reduces DHS' VR grant award for the subsequent federal fiscal year by the amount of the deficit.

Condition

Inadequate Controls Over Maintenance of Effort

Based on review of DHS' maintenance of effort calculations, the Director of Operations – Fiscal and Budget did not ensure that the Fiscal Director established an adequate process for preventing or detecting and addressing instances of noncompliance with maintenance of effort requirements for VR. Specifically, we found that the Fiscal Director had not established a documented process for calculating VR maintenance of effort thresholds based on actual non-federal expenditures.

Instead, the Fiscal Director's documented calculations of maintenance of effort thresholds were based on estimates of non-federal VR expenditures. These estimates of non-federal expenditures were based on the assumptions that all VR grant awards would be expended fully in the federal fiscal year in which the grant was received, and non-federal expenditures would be exactly the amount needed to match the federal award.

The Fiscal Director stated that he did have a process for calculating the maintenance of effort based on actual expenditures, but these calculations were not documented. In addition, he said his calculations indicated that DHS had met the maintenance of effort requirements, so he did not need to take action to ensure the requirements would be met. Because the Fiscal Director did not maintain his documentation, we could not review his calculations. Furthermore, based on our maintenance of effort testwork, we found that the department did not meet the maintenance of effort requirements during the audit period as described in detail below.

Noncompliance With Maintenance of Effort Requirements

We compared the amount of non-federal VR expenditures for FFY 2012 to the non-federal VR expenditures for FFY 2014 to determine whether the Director of Operations – Fiscal and Budget ensured that the U.S. Department of Education reduced the VR award for the federal fiscal year October 1, 2014, through September 30, 2015 (FFY 2015), as required. The amount of the reduction is calculated by determining the deficit in non-federal expenditures during FFY 2014 as compared to non-federal expenditures during FFY 2012. It is incumbent upon the department's fiscal staff to perform this calculation in order to evaluate whether the department has sufficiently met maintenance of effort.

Based on the procedures performed, we determined that although the U.S. Department of Education reduced the VR award for FFY 2015 by $73,158, the reduction was short by $1,129,305. Specifically, the FY 2015 VR award should have been reduced by a total of $1,202,463. The U.S. Department of Education was unable to reduce the award by the required amount because the SF-425 reports for FFY 2014 and FFY 2012 did not accurately report the department's non-federal expenditures during the applicable fiscal years.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner did not ensure the risks and mitigating controls associated with meeting maintenance of effort requirements for VR were included in the department's annual risk assessment.

Criteria

According to Title 29, *United States Code*, Chapter 16, Section 731(a)(2)(B),

> The amount otherwise payable to a State for a fiscal year under this section shall be reduced by the amount by which expenditures from non-Federal sources under the State plan under this subchapter for any previous fiscal year are less than the

> total of such expenditures for the second fiscal year preceding that previous fiscal year.

Cause

Regarding inadequate controls over maintenance of effort calculations, the Director of Operations – Fiscal and Budget, stated in an email communication that

> …the actual amount of the non-federal share is not known and quantified until the end of the fiscal year. As a result, DHS' non-federal share and Maintenance of Effort predictably fluctuate from year-to-year. This inherent process volatility results in expected varying levels of Maintenance of Effort from year to year.

Although it appears reasonable to conclude that maintenance of effort thresholds will fluctuate from year to year, we do not agree that DHS staff should calculate maintenance of effort requirements based on estimates of non-federal expenditures or that DHS staff should fail to update these estimates when actual expenditure data becomes available. The department's maintenance of effort calculations we reviewed included estimated expenditures dating back to the federal fiscal year ended September 30, 2000.

Effect

Failure to establish and maintain adequate internal controls over compliance increases the risk that management will fail to prevent or detect and address instances of noncompliance with federal statutes and regulations.

According to Title 34, *Code of Federal Regulations* (CFR), Part 361, Section 62(a)(1),

> The Secretary [of the U.S. Department of Education] reduces the amount otherwise payable to a State for a fiscal year by the amount by which the total expenditures from non-Federal sources under the State plan for the previous fiscal year were less than the total of those expenditures for the fiscal year 2 years prior to the previous fiscal year.

According to 34 CFR 361.62(a)(2),

> If, at the time the Secretary makes a determination that a State has failed to meet its maintenance of effort requirements, it is too late for the Secretary to make a reduction in accordance with paragraph (a)(1) of this section, then the Secretary recovers the amount of the maintenance of effort deficit through audit disallowance.

If a state fails to meet maintenance of effort, the amount of the state's VR grant award will be reduced. Therefore, failure to meet maintenance of effort requirements increases the risk that the amounts of DHS' VR grant awards will be reduced or that expenditures charged to those awards will be disallowed.

Recommendation

The Director of Operations – Fiscal and Budget should establish a documented process for calculating maintenance of effort thresholds based on actual expenditures. In addition, the Commissioner should ensure that DHS staff periodically calculate maintenance of effort requirements and determine whether DHS has adhered to those requirements. In the event that the amounts of non-federal expenditures calculated during this process are inconsistent with the department's SF-425 reports submitted to the U.S. Department of Education, the Commissioner should ensure that DHS staff promptly notify the U.S. Department of Education.

The Commissioner should also ensure the risks and mitigating controls associated with meeting maintenance of effort requirements for Vocational Rehabilitation are included in the department's annual risk assessment.

Management's Comment

We concur.

The Department submitted a corrective action plan for the Vocational Rehabilitation Program to the federal awarding agency. The federal awarding agency indicated it was a well thought out corrective action plan and accepted it with no changes. The corrective action plan addresses the audit concerns identified in this finding. It should be noted that State Audit has reviewed this program eight times since 2004 and did not identify this issue until it was brought to their attention by our federal partners during the development of the corrective action plan. It should be noted that findings 2015-040, 2015-041, 2015-042, and 2015-043 are all related and not separate and distinct issues.

Historical procedural errors identified date back at least 20 years. This was a long standing issue that came to light prior to this administration and the Department has corrected the procedures. Additionally, the Department has taken action to address a staffing issue that was a major contributing factor to this matter. The Department is moving forward in a positive direction.

Although the Department recognizes the challenges that are being addressed, it must be noted that the Department has not misused or otherwise misappropriated federal funds and all funds have been utilized for eligible VR services; this can be documented. Moreover, since 2011, the VR program has increased the number of successful employment outcomes for Tennesseans with disabilities by 36%. The VR program has realized positive program outcomes, including but not limited to the following:

- 8% increase from FY2011-FY2016 of the number of Transition from School to Work contracts, which has resulted in expanded transition services to a greater number of students with disabilities throughout Tennessee;
- in 2014, revamped the Vocational Training Programs at Tennessee Rehabilitation Center at Smyrna in order to increase successful employment outcomes based on labor market trends and employer demands for the Tennessee workforce;

- 24% increase since 2011 of the number of Master's level Vocational Rehabilitation Counselors and staff delivering direct client services through the Comprehensive System of Personnel Development;
- 7.72% increase between October 2014 - October 2015, of the timeliness process for determining eligibility for services within the 60 day timeframe in accordance with federal regulations; and
- increased the number of partnerships with other state agencies to increase the number of people with disabilities in employment, particularly to those who are theoretically harder to place in competitive, integrated employment. Partnerships have resulted in an increase in successful employment outcomes for persons with significant mental health disorders and intellectual/developmental disabilities.

Since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

Auditor's Comment

As management stated, we have audited this program eight times since 2004; however, management cannot rely on external audits as its only means to ensure its compliance with federal grant regulations. Audits are performed after the grant award and are based on sampling methods, not 100% review of all departmental transactions.

Finding Number	2015-043
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A130063 and H126A140063
Federal Award Year	2012 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services' program and fiscal staff did not ensure the department's financial management systems were sufficient to capture grant data needed to provide for complete and accurate preparation of federal financial reports

Background

The U.S. Department of Education's Rehabilitation Services Administration (RSA) provides Vocational Rehabilitation Grants to assist states in operating comprehensive vocational rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services (DRS). As part of the grant's requirements, the state matches the federal funds by using state and other non-federal funds, such as funds from local governments and donations, to pay 21.3% of all Vocational Rehabilitation expenditures. DHS fiscal staff draw down federal Vocational Rehabilitation funds using the U.S. Department of Education's G5 grants management system.

The department is required to file a *Federal Financial Report*, the SF-425 report, semi-annually for each federal fiscal year's Vocational Rehabilitation grant. The semi-annual reporting periods are April 1 through September 30 and October 1 through March 31. Reports are generally due to RSA 45 days after the close of the reporting period.

Once it receives the SF-425 reports, RSA reviews the department's reports and makes the following determinations:

- whether the department is permitted to carry over Vocational Rehabilitation funds into the next federal fiscal year;
- if the department must return any unobligated federal program income to RSA; and
- if the department complied with various compliance requirements.

General Reporting Requirements

Obligations

RSA requires grantees (in this case, DRS) to track and report the amounts and funding sources of obligations.[39] In addition, DRS must track these obligations by obligation date and in terms of their status as unliquidated or liquidated.[40]

Program Income

In addition, RSA's instructions require DRS to report the amount of program income expended in accordance with federally prescribed methodologies (the deduction alternative or the addition alternative). To ensure the expenditures of program income are included on the proper SF-425 report, DRS must match expenditures of program income to the federal fiscal year in which that program income was received. The process to match the expenditures of program income to the year in which the income was received is necessary to record expenditures of program income on the correct SF-425 report.

RSA requires DRS to complete a separate SF-425 report for each federal Vocational Rehabilitation grant award until each award's period of performance ends;[41] therefore, if DRS carries over federal Vocational Rehabilitation funds into the subsequent federal fiscal year, the department must submit two SF-425 reports for each reporting period in the subsequent federal fiscal year. Because DRS carried over federal Vocational Rehabilitation funds provided for the federal fiscal year October 1, 2012, through September 30, 2013 (FFY 2013), to the federal fiscal year October 1, 2013, through September 30, 2014 (FFY 2014), DRS submitted two SF-425 reports for the semi-annual period ended September 30, 2014—one for the FFY 2013 grant award and one for the FFY 2014 grant award.

To determine whether DHS properly reported required financial information in its SF-425 reports, we tested the semi-annual SF-425 reports for the period ended September 30, 2014, related to the FFY 2013 and FFY 2014 grant awards.

Conditions

We found that the Director of Operations – Fiscal and Budget (the member of DHS management who had sufficient authority to establish adequate internal controls over Vocational Rehabilitation reporting) and the Fiscal Director (the report reviewer) did not ensure that the department's fiscal control and accounting procedures (financial management systems) were sufficient to permit the preparation of required reports. Furthermore, the Fiscal Director and

[39] Obligations are the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.
[40] For reports prepared on an accrued expenditure basis, federal regulations require obligations to be classified as unliquidated when the corresponding expenditure for the obligation has not yet been recorded.
[41] Period of performance means the time during which the non-federal entity may incur new obligations to carry out the work authorized under the federal award.

Accountant (the report preparer) did not ensure that the SF-425 reports were complete and accurate.

A. Financial Management Systems Were Insufficient to Permit the Accurate Preparation of Required Reports

We were unable to test information in the reports related to the department's share of expenditures and obligations (specifically, lines 10j, 10k, 12a, and 12d), because the Director of Operations – Fiscal and Budget had not established a comprehensive process for ascertaining the obligation dates, amounts, and funding sources for the department's expenditures (liquidated obligations) and any remaining unliquidated obligations.

Staff must use the obligation date to determine which SF-425 report to complete. For example, if the state incurs an obligation in the prior federal fiscal year, the state is required to report the obligation on the SF-425 report for the prior federal fiscal year's grant award, even if the obligation is liquidated (expenditure transaction recorded) in the subsequent federal fiscal year.

The department maintained documentation that could be used to determine the obligation date for a single expenditure or obligation; however, the Director of Operations – Fiscal and Budget had not established a process for accumulating obligation dates for all liquidated and unliquidated obligations, which would be needed to capture all pertinent SF-425 report data. Because the department could not provide comprehensive information regarding the obligation dates for all obligations, we could not determine whether obligations were reported on the correct SF-425 report (that is, on the report for the FFY 2014 grant award or on the report for a prior federal fiscal year's grant award based on obligation dates). The required obligation data was not available because Edison, the state's accounting system, tracked liquidated obligations (expenditures) by the accounting period instead of the obligation dates.

Accounting periods in Edison generally represent the month that goods and services are received, while the obligation date is generally the date a contract, subaward, or other written commitment is signed (or, if there is no written agreement, the date goods or services are received). Because the Fiscal Director and Accountant responsible for preparing the SF-425 reports used accounting periods as the basis for preparing the report, we could not determine whether they reported the financial data in the correct reports.

We were also unable to test information in the reports related to expenditures of federal program income (specifically, lines 10m, 10n, 10o, 12e, and 12f) due to various factors, including the following:

- The Director of Operations – Fiscal and Budget had not established a comprehensive method for matching expenditures of program income to the federal fiscal year in which the program income was received; therefore, we could not determine which expenditures of program income should be reported on the SF-425 report for the FFY 2014 grant award and which should be reported on the SF-425 report for a prior year's grant award.

- The Fiscal Director and Accountant did not reconcile unexpended program income with accounting records. As a result, unexpended program income as reported on the SF-425 report for the FFY 2014 grant did not agree with program income remaining in accounts used to track program income revenue at September 30, 2014.

- The Fiscal Director and Accountant recorded receipts of program income and receipts of refunds in one account used to track program income in Edison, making it impossible for us to substantiate the amount of program income expenditures recorded in the account.

- Due to a calculation error, the Fiscal Director and Accountant overstated unexpended program income (PI) for the department's FFY 2014 grant award on the SF-425 report. Instead of using the calculation of beginning PI + receipts of PI - expenditures of PI = undisbursed PI, the Fiscal Director and Accountant substituted all PI received during the prior federal fiscal year for beginning PI. Because DHS' SF-425 report for its FFY 2013 grant award for the period ended September 30, 2013, indicated that a portion of program income received in FFY 2013 was disbursed in FFY 2013, beginning PI was not equivalent to all PI received in FFY 2013. Since neither beginning PI nor the other numbers used in the calculation could be substantiated (due to factors discussed in the preceding bulleted items), we could not determine the impact that this calculation error had on the SF-425 reports we reviewed.

- The Fiscal Director and Accountant included expenditures of federal funds for Tennessee Rehabilitation Center contracts as expenditures of program income. The expenditures were allowable Vocational Rehabilitation expenditures; however, they were expenditures of federal funds, not program income. Therefore, the expenditures should not have been reported as program income expenditures.

B. SF-425 Reports Were Incomplete and Inaccurate

We found that the Fiscal Director and Accountant did not ensure that the information included in the SF-425 reports was complete and accurate.

On lines 10a, 10b, and 10i of the SF-425 for the FFY 2013 grant award, the Fiscal Director and Accountant did not use the amount of draws per the G5 system (the system used to draw down federal funds from the U.S. Department of Education) as the basis to report the amount of federal funds received from the grantor. Instead, they used the authorization amount of the award, which does not necessarily agree to amounts drawn.

FY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
FFY 2013	9/30/2014	10a	Cash Receipts	$36,134,993	$36,002,078	$132,915
FFY 2013	9/30/2014	10b	Cash Disbursements	$36,134,993	$36,002,078	$132,915
FFY 2013	9/30/2014	10i	Total Recipient (Department) Share Required	$9,779,865	$9,743,892	$35,973

On line 10e of the SF-425 for the FFY 2013 and FFY 2014 grant awards, the federal share of expenditures did not agree with accounting records due to various factors:

- For the purpose of generating the SF-425 reports, the Fiscal Director and Accountant made off-book adjustments but never entered the off-book adjustments into the accounting system.
- The Fiscal Director and Accountant did not use the state's official accounting system, Edison, to determine the amount of the federal share of grant expenditures. Instead, they used manual calculations to determine the amount of the federal share of expenditures indirectly. For example, even if Edison indicated that a $100 expenditure was funded entirely using federal funds, the Fiscal Director and Accountant would manually multiply the expenditure by 78.7% and report $78.70 as the federal share of expenditures. As a result of the failure to rely on official accounting records, the department's manual supporting calculations and Edison accounting records did not agree. In one example, the department's manual supporting calculations for the FFY 2013 report indicated that over $500,000 of expenditures for one group of expenditures were funded using federal funds when the Edison accounting records demonstrated that the expenditures were funded entirely from non-federal funds.
- The Fiscal Director and Accountant did not reconcile Edison accounting records to federal draw records in G5. As a result, we could not substantiate that expenditures identified as federal expenditures in Edison were actually funded using federal as opposed to non-federal funds. Specifically, we found that the department charged more expenditures to the FFY 2013 grant funds in Edison than the amount of federal funds available under the FFY 2013 award. This means that those expenditures which exceeded the specified grant award were funded by non-federal sources; therefore, the accounting records in Edison were inaccurate as to expenditure funding source.

FY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
FFY 2013	9/30/2014	10e	Federal Share of Expenditures	$36,134,993	$36,638,037	($503,044)
FFY 2014	9/30/2014	10e	Federal Share of Expenditures	$5,158,352	$52,316	$5,106,036

For line 10f of the SF-425 for FFY 2014, the Fiscal Director and Accountant improperly excluded certain contract obligations that should have been included.

FY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
FFY 2014	9/30/2014	10f	Federal Share of Unliquidated Obligations	$4,623,967	$8,472,862	($3,848,895)

For line 10l of the SF-425 for FFY 2013 and FFY 2014, the Fiscal Director and Accountant reported federal program income inaccurately. Specifically, we found that the Fiscal Director and Accountant reported 100% of program income received as federal program income because, per discussion with the Director of Operations – Fiscal and Budget, RSA informed him that the federal share of Vocational Rehabilitation program income is 100% of program income received. To follow up on program income requirements, we reviewed Title 34, *Code of Federal Regulations* (CFR), Part 80, Section 25(g)(2) (which was in effect at the time the reports were submitted) as well as Attachment F, Request for Approval of Program Income, to the FFY 2013 and FFY 2014 grant awards for the Rehabilitation Services – Vocational Rehabilitation Grants to States program and found that both criteria indicate that program income was permitted to be used to increase the amount of funds committed to the project by the recipient (the department) as well as the federal agency. As a result, we could not conclude that department staff reporting all program income as federal was appropriate based on the following:

(1) non-federal resources were used to fund 21.3% of the activities that generated the program income,

(2) accounting staff treated program income as 78.7% federal and 21.3% non-federal, and

(3) we were not provided a requirement (nor could we identify a requirement) in the guidance or program regulations for Vocational Rehabilitation that required treating 100% of program income received as the federal share of program income.

In addition, even if 100% of program income received was considered to be federal program income, we found that the Fiscal Director did not ensure that the amount reported as Vocational Rehabilitation program income received agreed with the accounting records.

FY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
FFY 2013	9/30/2014	10l	Total Federal Program Income Earned	$5,363,752	$4,378,604	$ 985,148
FFY 2014	9/30/2014	10l	Total Federal Program Income Earned	$6,580,765	$5,175,020	$1,405,745

For line 11c of the SF-425 for FFY 2013 and FFY 2014, the information the Fiscal Director and Accountant reported on the “Period From” and “Period To” lines correspond with federal fiscal years, not the beginning and ending effective dates of the Cost Allocation Plan (CAP), as required by RSA’s report instructions. Since the department’s CAPs begin on July 1 of the relevant state fiscal years, July 1 should be reported on line 11c as “Period From.” In addition, the CAP effective July 1, 2014, had not expired at September 30, 2014; therefore, “Period To” should have been blank or not applicable. Because the report’s instructions did not clarify whether the grantee should report expenditure information for each CAP in effect during the life of the grant, we concluded that the information reported for line 11c, period from / period to, should reflect the most recent CAP available.

For lines 11d, 11e, and 11f of the SF-425 for FFY 2013 and FFY 2014, the Fiscal Director and Accountant did not ensure that all CAP costs were reported in accordance with the report’s instructions. The instructions require the total amount of the CAP costs to be included on line 11d. Based on review of 45 CFR 95.505, CAP costs include all costs subject to the CAP, not just indirect costs. We found that the Fiscal Director and Accountant reported a subset of indirect costs instead of all CAP costs.

FY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
FFY 2013	9/30/2014	11d	Base	$5,570,746	$30,030,558	($24,459,812)
FFY 2013	9/30/2014	11e	Amount Charged	$0	$30,030,558	($30,030,558)
FFY 2013	9/30/2014	11f	Federal Share	$4,384,177	$24,539,592	($20,155,415)
FFY 2014	9/30/2014	11d	Base	0	$108	($108)
FFY 2014	9/30/2014	11e	Amount Charged	0	$108	($108)
FFY 2014	9/30/2014	11f	Federal Share	0	$85	($85)

Given the problems identified during our fieldwork, we also reviewed DHS’ November 2014 Financial Integrity Act Risk Assessment. We determined that management did not document the mitigating controls associated with ensuring that reports are submitted accurately and that reports agree with accounting records in the department's annual risk assessment. Management documented in the annual risk assessment that there was a high impact and a remote (low) likelihood that all required federal reports are not submitted accurately and timely. Given the frequency with which we identified inaccuracies in federal reports, we concluded that management should have assessed the likelihood as probable (high) and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

Regulations in 2 CFR 200.302(a) (formerly 34 CFR 80.20(a)(1)) require the state's financial management systems to be sufficient to permit the preparation of required reports and the tracing of funds to a level of expenditures adequate to establish that such funds have been used properly.

34 CFR 80.25(g)(2) states,

> When authorized, program income may be added to the funds committed to the grant agreement by the Federal agency and the grantee.

According to Attachment F, Request for Approval of Program Income, to the FFY 2013 and FFY 2014 Grant Awards for the Rehabilitation Services – Vocational Rehabilitation Grants to States,

> Unless checked below as NOT ALLOWED, the recipient may exercise any of the options . . . for using program income . . . [One of the options that is not checked as not allowed is] Adding program income to funds committed to the project by the Secretary and recipient and using it to further eligible project or program objectives.

According to 45 CFR 95.505,

> *State agency costs* include all costs incurred by or allocable to the State agency except expenditures for financial assistance, medical vendor payments, and payments for services and goods provided directly to program recipients such as day care services, family planning services or household items as provided for under the approved State program plan. . . . *Cost allocation plan* means a narrative description of the procedures that the State agency will use in identifying, measuring, and allocating all State agency costs incurred in support of all programs administered or supervised by the State agency [emphasis in original].

For the two reports audited, the relevant instructions for preparing the reports were prescribed by RSA's policy directive entitled "Revision of PD-11-02, instructions for completing the Federal Financial Report (SF-425) for the Vocational Rehabilitation State Grants Program," (PD-12-06) effective February 13, 2012.

The instructions for line 10a state,

> The grantee must enter the net amount on line 10a that the grantee has drawn down from G5.

The instructions for line 10f state,

> Enter the federal portion of unliquidated obligations incurred by the grantee.

The instructions for line 10j state,

> Enter the grantee's total amount of non-federal expenditures for the reporting period. This amount must include the grantee's non-federal share of actual cash disbursements or outlays (less any rebates, refunds, or other credits), including payments to contractors, **and the grantee's non-federal share of unliquidated obligations** [emphasis in original].

The instructions for line 10l state,

> Enter total amount of federal program income earned and received by the grantee as of the end of the reporting period.

The instructions for line 10m state,

> For those grantees using the deduction alternative, enter the amount of program income that was used to reduce the federal share of the total VR program costs.

The instructions for line 10n state,

> For those grantees using the addition alternative, enter the amount of program income that was used to supplement the federal share of the total program costs.

The instructions for line 11c state,

> Enter the beginning and ending effective dates for the approved indirect cost rate(s) or cost allocation plan.

The instructions for line 11d state,

> For CAPs, enter the total amount of the CAP costs (state and federal).

<u>Cause</u>

The issues noted above were the result of a variety of factors, including the following:

1. Vocational Rehabilitation's reporting requirements are relatively complex, primarily due to the program's requirement that the non-federal share of funds carried over to a subsequent federal fiscal year be obligated in the fiscal year the federal funds are

granted. This differs significantly from carryover requirements for other grant programs, which generally permit carryover of federal funds without obligating the non-federal share in the fiscal year the federal funds are granted.

2. The Director of Operations – Fiscal and Budget stated that DHS did not consider certain reporting issues to be problems, such as the department's failure to match non-federal expenditures to obligation dates to ensure the expenditures were reported on the correct SF-425 reports, and the department's practice of using manual calculations to split expenditures 78.7% federal and 21.3% state for reporting purposes, even though the department's accounting system should be the basis to track and report all grant activity.

3. The department's accounting systems were not designed to capture and report obligation information in a comprehensive manner by obligation dates or to trace disbursements of program income back to the date(s) on which the program income was received. In addition, the department had not even established manual processes to capture this information.

4. The Director of Operations – Fiscal and Budget failed to establish basic internal controls over financial processes, such as reconciling Edison expenditures charged to federal funds to the amount of funds drawn down from federal agencies or ensuring that staff either used accounting records as the basis for amounts reported or reconciled accounting records to the amounts reported.

5. Due to numerous unsuccessful attempts at preparing these reports, the internal control deficiencies identified in the reporting process, the nature and frequency of problems noted in the reports, and the seniority of staff and management committing basic reporting errors, we concluded that the Director of Operations – Fiscal and Budget, Fiscal Director, and Accountant lacked the skills needed to prepare accurate, complete reports in accordance with Vocational Rehabilitation regulations or to establish adequate internal controls over reporting for Vocational Rehabilitation.

During the performance of our audit, we noted that management had assigned new staff and members of management the responsibility for preparing and/or approving SF-425 reports. Subsequent to our audit period, the department continued to work with RSA to submit corrected SF-425 reports and supporting data. We did not seek to audit report data submitted to RSA subsequent to our audit period; however, based on our brief review of the supporting data and RSA's responses to the submissions, it did not appear that DHS had made significant progress with respect to the ability to prepare accurate SF-425 information.

Effect

The department's reporting problems, among other factors, resulted in RSA identifying the department's Vocational Rehabilitation program as high-risk. In the high-risk letter, dated November 2, 2015, RSA noted that it has provided ongoing fiscal technical assistance to the department since 2011, including an on-site visit in May 2015 to address the department's deficiencies in reporting and financial management. In spite of this technical assistance, and in spite of the department submitting numerous sets of revised SF-425 reports, the department was still unable to demonstrate that it was accounting for and reporting Vocational Rehabilitation grant activity properly. This led to RSA prescribing special conditions in the November 2, 2015, high-risk letter, including a temporary halt to drawing down federal Vocational Rehabilitation funds until the department fulfilled certain requirements. Failure to address these reporting issues places the program at risk for further funding disruptions, which could have a significant impact on the Vocational Rehabilitation clients receiving services through the department.

Recommendation

The Commissioner should ensure that the Fiscal Director and Accountant are adequately trained with respect to reporting requirements for Vocational Rehabilitation, including RSA's instructions for report preparation, Vocational Rehabilitation regulations, uniform administrative guidance, and the terms and conditions of the grant award. In consultation with the Department of Finance and Administration, the Commissioner should ensure that the internal controls for reporting for Vocational Rehabilitation are revised to provide for complete, accurate report submissions. This should include ensuring that appropriate reconciliations are performed for financial information in Edison, the Tennessee Rehabilitative Information Management System, and reports. The Commissioner should require that all reports be supported directly by accounting records or reconciliations based on the accounting records. The Commissioner should also ensure that the written, detailed recommendations that we have prepared and provided to management separately during our audit fieldwork are considered and that RSA is consulted prior to implementing proposed corrective actions.

Finally, the Commissioner should ensure that the department's risk assessment is revised to include the mitigating controls associated with ensuring that reports are submitted accurately and that reports agree with accounting records.

Management's Comment

We concur.

The Department submitted a corrective action plan for the Vocational Rehabilitation Program to the federal awarding agency. The federal awarding agency indicated it was a well thought out corrective action plan and accepted it with no changes. The corrective action plan addresses the audit concerns identified in this finding. It should be noted that State Audit has reviewed this program eight times since 2004 and did not identify this issue until it was brought to their attention by our federal partners during the development of the corrective action plan. It should be noted that findings 2015-040, 2015-041, 2015-042 and 2015-043 are all related and not separate and distinct issues.

The State of Tennessee's Finance and Administration Office (F&A) has a financial management system (Edison) in place that meets federal requirements and applies generally accepted accounting principles. F&A has confirmed that the system in place for administering the federal program is more than capable of meeting program requirements. Additionally, there are established processes in place (i.e., system controls) for the proper treatment of program income. Edison's grant module is capable of drawing from the appropriate grant award. F&A is in agreement with the Department's analysis that the items noted can be readily resolved. In fact, some of the necessary changes have already taken place. In addition, the Department utilizes a case management and accounting system (TRIMS) that tracks the specific information on the case service dollar spending which includes individual served, service date, and obligation date. TRIMS was developed by a third-party vendor who utilizes the same software to support VR programs in several other states. TRIMS has the ability to track expenditures by date of obligation. Both Edison and TRIMS are compliant with federal regulations.

Historical procedural errors identified date back at least 20 years. This was a long standing issue that came to light prior to this administration and the Department has corrected the procedures. Additionally, the Department has taken action to address a staffing issue that was a major contributing factor to this matter.

Although the Department recognizes the challenges that are being addressed, it must be noted that the Department has not misused or otherwise misappropriated federal funds and all funds have been utilized for eligible VR services; this can be documented. Moreover, since 2011, the VR program has increased the number of successful employment outcomes for Tennesseans with disabilities by 36%. The VR program has realized positive program outcomes, including but not limited to the following:

- 8% increase from FY2011 - FY2016 of the number of Transition from School to Work contracts, which has resulted in expanded transition services to a greater number of students with disabilities throughout Tennessee;
- in 2014, revamped the Vocational Training Programs at Tennessee Rehabilitation Center at Smyrna in order to increase successful employment outcomes based on labor market trends and employer demands for the Tennessee workforce;
- 24% increase since 2011 of the number of Master's level Vocational Rehabilitation Counselors and staff delivering direct client services through the Comprehensive System of Personnel Development;
- 7.72% increase between October 2014 - October 2015, of the timeliness process for determining eligibility for services within the 60 day timeframe in accordance with federal regulations; and
- increased the number of partnerships with other state agencies to increase the number of people with disabilities in employment, particularly to those who are theoretically harder to place in competitive, integrated employment. Partnerships have resulted in an increase in successful employment outcomes for persons with significant mental health disorders and intellectual/developmental disabilities.

It should be noted that since 2011, this Administration has maintained a solution focused posture as evidenced by the Top to Bottom review, which was only the first step. Since that time the Department has either identified or learned of historical problematic practices that may not be readily identifiable and addressed them accordingly and will continue to do so.

Auditor's Comment

As management stated, we have audited this program eight times since 2004; however, management cannot rely on external audits as its only means to ensure its compliance with federal grant regulations. Audits are performed after the grant award and are based on sampling methods, not 100% review of all departmental transactions.

Finding Number	2015-044
CFDA Number	93.575 and 93.596
Program Name	Child Care Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, and G1501TNCCDF
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$12,908
Repeat Finding	N/A

The department has not ensured controls were effective to recover overpayments from child care providers identified by the department's External Program Review, resulting in questioned cost of $12,908

Background

The Child Care Certificate Program provides subsidies to families in several categories of assistance with the goal of meeting two primary functions as a support to allow families to work and/or attend school, and as a means of promoting the physical, emotional, educational, and social development of children. The Department of Human Services' (DHS) External Program Review (EPR) staff are responsible for monitoring child care providers via the Child Care Certificate Program, which is funded through the Child Care Development Fund.

There are two types of reviews performed by EPR, regarding the Child Care Certificate Program: Random and Special Purpose. Random reviews are conducted on child care providers that are selected for review through a variety of methods, including a random number generator, for monitors to perform a series of steps. Special Purpose reviews are conducted on child care providers that are selected by the department's monitors based on a variety of factors. These factors include referrals, calls from the public, or "red flags" (e.g., unrealistic or inconsistent attendance documentation submitted to DHS).

EPR sends an on-site review letter to the child care provider after completion of the review. The on-site review letter is also sent to other DHS staff within Child Care Services, Program Integrity, and Fiscal Services for proper follow-up. Child care providers are required to submit a corrective action plan to the DHS Planner and Interim Inspector General outlining strategies to correct any deficiencies identified during the external program review and arrange a repayment plan for any questioned costs (overpayments) within 15 days from the date of the on-site review letter. The child care providers are instructed to submit repayments to the Accountant 3 in Fiscal Services. If a repayment plan is not arranged, DHS informs the child care providers in the on-site review letter and in the Provider Agreement that future child care payments will be withheld until the questioned costs (overpayments) are recovered.

Condition

Fiscal Services has not ensured controls were effective to collect child care overpayments identified through the department's external monitoring.

We tested the entire population of eight on-site reviews performed and/or completed by EPR staff during the audit period, July 1, 2014, through June 30, 2015. Based on testwork performed, we found that the Fiscal Director did not recover the overpayments identified by EPR staff for three of eight providers (37.5%). In fact, the department continued to make child care payments even though the overpayments were not resolved.

We did find that two of the providers had appropriately responded with a corrective action and a repayment plan; however, the Fiscal Director failed to recover the overpayments through the proposed repayment plan. The other provider voluntarily closed prior to the issuance of its review letter, and thus the department was unable to recover overpayments.

Based on our review, we determined that EPR experienced delays in mailing the review letters, which possibly contributed to the fiscal staff not having an opportunity to recoup the overpayment before the child care provider voluntarily closed.

Provider	Date of On-site Review	Date of On-site Review Letter[42]	Overpayments Identified by DHS As a Result of On-site Review	Most Recent Child Care Payment to Provider as of November 30, 2015	Most Recent Child Care Payment Amount to Provider	Total Payments to Providers Since On-site Review Letter
Provider 1	4/14/2014	5/11/2015	$5,920	11/4/2014	$465	$11,750[43]
Provider 2	4/7/2014	9/1/2015	$3,018	11/17/2015	$3,380	$15,380
Provider 3	6/18/2014	9/1/2015	$3,970	11/30/2015	$2,746	$24,981
Total			$12,908			$52,111

[42] Per the DHS Director of Internal Audit, it is not common for the on-site review letter to be issued over a year after the on-site review occurred. One explanation for the extensive time span between the on-site review and the on-site review letter was staff turnover. He could not provide any other explanations but stated that the previous Interim Director of External Program Review, who is no longer employed with the department, would have known.

[43] The child care provider voluntarily closed on October 24, 2014, prior to the May 11, 2015, on-site review letter. We used the total payments since date of on-site review instead of total payments since date of on-site review letter, in this instance.

We reviewed DHS's November 2014 Financial Integrity Act Risk Assessment and determined that management included Activities Allowed/Allowable Costs and Department of Finance and Administration Policy 2, "Accounting for Recoveries and Refunds," in its annual risk assessment; however, management assessed the impact of occurrence as small and the likelihood as remote. Considering the nature of the program, we determined that the likelihood that this risk could occur should have been classified as probable with medium impact. Failure to recover overpayments increases the risk of child care providers committing fraud, waste, and abuse. Additionally the department's risk of noncompliance with federal requirements is increased.

Criteria

DHS has the authority to recover overpayments when the child care provider does not maintain sufficient documentation as required and defined by Section A.5, "Documentation," of the Provider Agreement, which states, "The Provider shall maintain documentation of daily attendance, hours and location of each child, as may be required by the Department." According to clauses C.7, C.8, and C.9 in the Provider Agreement, DHS can recoup overpayments by means of payment reductions and deductions:

> C.7. Payment Reductions. The Provider's payment shall be subject to reduction for amounts included which are determined by the State, on the basis of review or audits conducted in accordance with the terms of this Contract, not to constitute proper remuneration for compensable services.
>
> C.8. Deductions. The State reserves the right to deduct from amounts which are or shall become due and payable to the Provider under this or any Contract between the Provider and the State of Tennessee any amounts which are or shall become due and payable to the State of Tennessee by the Provider.
>
> C.9. Methods of Collection of Overpayments. Provider understands and agrees that an "Overpayment" is any payment, whatever the cause that exceeds the amount that is lawfully or otherwise correctly due under the terms of this agreement, or that is not adequately supported by necessary documentation acceptable to the Department.
>
>> a. The Provider understands and agrees to the following child care certificate repayment and offset procedures for Overpayments:
>>
>>> i. Lump Sum. The Provider may choose to repay an overpayment in one payment reduction from their next billing period or may choose to repay the full amount of the overpayment by cashier's check made out to the Department of Human Services and mailed or delivered to the Department's Fiscal Services unit.
>>>
>>> ii. Installments. The Provider may request approval from the Department to repay any overpayment in installments from a set number of billing periods agreed upon by the parties. A repayment

agreement for this purpose must be signed by the Provider and approved by the Department.

iii. Collection by Legal Action. The Department may pursue legal action for repayment under state law in the absence of an arrangement for voluntary repayment.

b. Terminated Providers/Owners with Debts. A Provider or owner of a Provider agency terminated from the Program while owing a debt to the Department may not re-enroll in the program until repayment has been made in its totality or an amount to exceed 50% of the debt approved by the Department.

Cause

Fiscal Services has not implemented controls to ensure the department does not continue to pay child care providers that owe a refund for child care overpayments.

Effect

The lack of internal controls and compliance with federal compliance requirements for allowable costs/activities increases the risk of disallowed costs by the federal grantor.

Questioned Costs

Total questioned costs for these overpayments are $12,908. Office of Management and Budget Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should require the Fiscal Director to strengthen controls over child care payments and repayment plans in order to ensure the department recovers all known overpayments and disallowed costs. In addition, the Fiscal Director should ensure that the department does not continue to pay child care providers who have uncollected overpayments.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department’s documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management’s Comment

We concur in part.

The department agrees with the questioned costs noted in the finding and we are in the process of recouping.

The department does not agree we were not timely initiating collections from two of the three providers.

Auditor's Comment

The chart clearly illustrates that the department was not timely initiating collections.

Finding Number	2015-045
CFDA Number	93.575 and 93.596
Program Name	Child Care Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, and G1501TNCCDF
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2014-017

Although management was aware and is reportedly in the process of improving internal controls, the Department of Human Services did not provide adequate internal controls in one area

Condition, Criteria, Cause, Effect

The department did not design and monitor internal controls in one specific area. We observed one condition in violation of state policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or errors.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the department with detailed information regarding the specific condition we identified, as well as our recommendations for improvement. Management stated that the department has started implementing internal controls in this area.

Recommendation

Management of the Department of Human Services should continue pursuing efforts to improve internal controls.

Management's Comment

The Department agrees that internal controls need to be improved. We do not agree that the Department does not have command over these internal controls. It should be noted that State Audit identified this issue subsequent to the Department identifying it as a weakness in internal control. Additionally, last year's Single Audit was the first time State Audit performed this level of review. The recognition of this control weakness by State Audit further reinforces the Department's assessment. The Department has delivered a full confidential response that provides an overview of the history of actions taken.

Finding Number	2015-046
CFDA Number	93.575, 93.596, and 93.667
Program Name	Child Care and Development Fund Cluster Social Services Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G1501TNCCDF, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, and G1501TNSOSR
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$143,033 (93.575 and 93.596) $28 (93.667)
Repeat Finding	N/A

The department failed to ensure child care providers maintained adequate documentation of child care services; the documentation provided was suspect and lacked credibility, increasing the risk of noncompliance, fraud, waste, and abuse

Background

The Child Care Certificate Program provides subsidies to families in several categories of assistance with the goal of meeting two primary functions—to serve as a support system to allow families to work and/or attend school, and to promote the physical, emotional, educational, and social development of children. The Department of Human Services' (DHS) Family Assistance staff are responsible for determining the eligibility for child care via the Child Care Certificate Program, which is funded through the Child Care and Development Fund (CCDF) and the Social Services Block Grant (SSBG). The type of child care provided determines the funding source. Parents receiving assistance through the Child Care Certificate Program may enroll their child(ren) in any child care provider of their choice. Child care providers wishing to receive DHS payment for child care are responsible for signing the Provider Agreement, which includes all requirements for provider participation in the Child Care Certificate Program.

Child care providers must submit an Enrollment Attendance Verification (EAV) form electronically or via mail in order to receive payment for child care services provided. DHS fiscal staff review the EAVs for reasonableness and irregularities. DHS requires the providers to maintain sign-in/out sheets (attendance documentation) to support the EAVs. DHS does not require the provider to submit the attendance documentation but requires the provider to maintain the documentation on-site for up to three years.

The Department of Human Services' External Program Review staff are responsible for monitoring child care providers through random or special purpose reviews. The purpose of the reviews is to ensure child care providers comply with the terms of the Provider Agreement and with federal and state rules and regulations. As part of their monitoring activities, the External Program Review staff compare the EAVs to the child care providers' attendance documentation (sign-in/out sheets). The staff question costs when they identify differences between the attendance documentation and the EAV and/or when the child care provider did not maintain the required documentation.

Condition

We tested a nonstatistical random sample of 70 child care expenditures from July 1, 2014, to June 30, 2015, totaling $12,686,512, from a population of 426,642 transactions, totaling $104,954,799. We requested the attendance documentation from the child care providers to support the EAVs and child care payments. Based on our testwork, we noted that the department failed to ensure child care providers maintained attendance documentation and that documentation, when maintained, was inadequate and insufficient evidence of child care services.

Child Care Providers Did Not Maintain Any Attendance Documentation

Based on testwork performed, we noted that for 12 of 70 expenditures reviewed (17%), the child care providers did not provide attendance documentation to support the child care payments they received. In our efforts to request daily attendance records, we found we were unable to contact 6 of the 12 providers because DHS could not provide us with current contact information. We successfully contacted the remaining six providers and requested the records; however, the six providers stated they did not maintain documentation, destroyed the documentation, or would submit documentation but never did. We questioned all funds paid to these child care providers, totaling $138,035, during the audit period July 1, 2014, through June 30, 2015, due to the lack of supporting attendance documentation for the CCDF program.

Child Care Providers Maintained Inadequate or Incomplete Attendance Documentation

Based on our review of the attendance documentation, we noted that for 20 of 58 expenditures reviewed (34%), child care providers did not maintain complete and adequate attendance documentation. Specifically, we noted the following problems with the attendance documentation that raised concerns as to the accuracy of the documentation:

- children appeared on the attendance documentation multiple times on the same day with varying in and out times;
- children were noted as absent on the attendance documentation but were noted as present on the EAV;
- all the children on the attendance documentation had the exact same sign-in and sign-out times for the entire month;
- one child attended the daycare for two minutes;
- parent or guardian signatures were not on the attendance documentation, or parents' initials were on the forms instead of signatures; and
- providers signed children in and out instead of parents or caregivers.

The inadequate and incomplete documentation resulted in $4,998 of questioned cost for the CCDF program and $28 of questioned costs for the Social Services Block Grant program.

Criteria

According to Title 45, *Code of Federal Regulations*, Part 98.67,

> (a) Lead agencies shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds, and (b) Unless otherwise specified . . . contracts that entail the expenditure of CCDF funds shall comply with the laws and procedures generally applicable to expenditures by the contracting agency of its own funds.

In addition, Section A.5 of the Provider Agreement states,

> The Provider shall maintain documentation of daily attendance, hours and location of each child, as required by the Department.
>
> > a. The Provider shall document attendance by requiring each child to be signed in and out by an authorized person whose name is listed in the child's record. The authorized person shall not be an employee of the Provider unless such person is the child's legal guardian.
> >
> > b. The Provider understands and agrees that acceptable forms of documentation may be one or more of the following, but that the Department may, at its sole discretion, require different, or additional, form(s) of documentation of a child's daily attendance:
> >
> > > i. Daily Paper sign in and sign out logs signed by a parent/ other "authorized" person; and/or
> > >
> > > ii. Transportation vehicle logs (acceptable only if the parent or other "authorized person" signs the child onto and/or off the vehicle).
> >
> > c. The Provider shall immediately make available upon request by the Department, the Comptroller of the Treasury, or any federal agency any documentation related to any payments made by the State or Federal government for the care of children enrolled in the Child Care Certificate Program, up to a period of three (3) years. . . .
> >
> > e. The Provider further agrees that any failure to maintain such files at such location and to immediately produce such files upon the request of DHS or any other agency of the state or federal government may result in the denial of any and all payments for child care services for any children for whom payments may be or have been requested under this Contract.

Cause

The Director of Child Care Services could not provide a reason for the child care providers not maintaining the attendance documentation or not maintaining complete or adequate documentation. Based on discussion with some of the in-home child care providers, they were not aware that they were required to maintain attendance documentation. Additionally, because DHS does not require providers to update their contact information, neither the department nor we could obtain documentation from these providers.

Effect

When the department fails to ensure child care providers maintain adequate and complete documentation, the department cannot ensure that payments to child care providers are for actual services. Without effective controls to ensure compliance, the department increases its risk of noncompliance, fraud, waste, and abuse.

Questioned Costs

We questioned costs totaling $143,033 for the CCDF program. The child care payment for one child was funded with CCDF and SSBG funds; therefore, we questioned costs of $28 for SSBG. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Director of Child Care Services and the Director of Family Assistance and Child Support should ensure that child care providers maintain attendance documentation and that the documentation is adequate, accurate, and complete. The Directors should also improve training and communication of requirements with all child care providers. At a minimum, the department should ensure it only charges the federal grants based on accurate documentation from the child care providers.

Management's Comment

We do not concur.

The Department does not agree as the contract between the State and provider requires each provider to maintain sign in/out documentation on all children funded through the certificate program, for all times the children are in attendance. The department then has the opportunity to identity non-compliance through an audit/monitoring review and licensing reviews. Provider documentation requirements are outlined in section A.5 of the Provider Agreement (HS-3033). As part of the enrollment process for the child care certificate program, each provider is required to sign a Provider Agreement (contract) attesting to their acceptance and understanding of the provisions of the contract. This process is repeated during the contract renewal process. To further support each child care provider's knowledge and understanding of the provisions of the contract a provider receives two copies of the contract: one at signing and an executed copy by mail.

The finding additionally notes that the auditor only contacted 6 out of the 12 providers selected for review. However, Child Care Certificate (CCC) staff contacted all providers with existing contact information on file. The information used by CCC staff was the same information provided to State Audit. One provider commented to CCC staff that she did not answer or return the call from State Audit due to the phone number that the auditor called from "being a private number, not a state office number." Child Care Services' staff contact providers from state office numbers to conduct official state business.

Auditor's Comment

We requested assistance from management several times during the course of our audit. We attempted all contacts to providers from official state telephone numbers. We also provided the results of our attempts to reach providers during our audit fieldwork. Our results included

- no answer,
- two instances of number not in service,
- we left a voicemail, but the call was never returned,
- phone company trouble, and
- wrong number.

Because management failed to assist and/or obtain documentation, we questioned the costs because of the lack of documentation. According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable.

Finding Number	2015-047
CFDA Number	93.575 and 93.596
Program Name	Child Care and Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, and G1501TNCCDF
Federal Award Year	2011 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking Period of Performance Reporting
Questioned Costs	$34,563,335
Repeat Finding	N/A

The Department of Human Services did not comply with matching, period of performance, and reporting requirements for the Child Care and Development Fund, resulting in questioned costs of $34,563,335

Background

The Child Care and Development Fund provides funds to states, territories, and Indian tribes to increase the availability, affordability, and quality of child care services.

The parent(s) of each eligible child who receives or is offered financial assistance for child care services receives a child care certificate. Child care certificates must be used as payment or as a deposit for child care services. During the audit period, July 1, 2014, through June 30, 2015, the Department of Human Services expended $113,969,150 ($17,772,181 in state funds and $96,196,969 in federal funds) to provide child care services to families.

The Child Care and Development Fund (CCDF) is composed of three funds: the Matching fund, the Discretionary fund, and the Mandatory fund. In order for a state to be eligible for federal funds provided under the Matching fund for any federal fiscal year, a state must, among other requirements, obligate all Mandatory funds during the first year of the grant period. All three funds are subject to period of performance requirements, which establish the time periods during which the department may obligate federal funds provided under the CCDF.

The U.S. Department of Health and Human Services' matching and period of performance requirements require states to track and report obligation information in order to correctly administer the grant at the state level. Furthermore, the U.S. Department of Health and Human Services is also required to reallocate to other states the federal CCDF funds originally granted to Tennessee, if Tennessee does not obligate its CCDF funds. Therefore, for Tennessee to retain the federal funding provided through the state's CCDF grant awards, it is essential that the department is able to clearly demonstrate the amount of federal funds that have been properly obligated.

For a grantee (in this case, the department) to demonstrate the amount of federal funds obligated through written documents such as contracts with vendors or child care certificates issued, it is critical that the obligation document provide a maximum amount to be paid or an expected amount to be paid under the contract or certificate. For example, if a contract or certificate documents the rate that will be paid for a unit of goods or services but does not provide a maximum or expected amount, neither the grantee nor the federal agency can determine the amount of federal funds obligated by the contract or certificate. As such, the grantee cannot provide evidence regarding the amount of the grantee's grant award, if any, that the federal grantor should reallocate to other grantees.

As a result, federal regulations for CCDF prohibit considering the issuance of child care certificates to represent obligations unless the amount of funds to be paid to the provider is included on the certificate. Therefore, if the department wishes to consider funds obligated when child care certificates are issued, the department must include the amounts to be paid to child care providers on each child care certificate the department issues.

Each child care certificate that the department issues is funded using multiple sources. For example, a $100 certificate for child care services may be funded by 20% state funds, 40% Mandatory CCDF funds, and 40% Discretionary CCDF funds. These percentages vary based on the type of CCDF participant. As a result, the department cannot determine the amount of Mandatory, Discretionary, and Matching funds that are obligated unless it tracks each child care certificate and the funding sources expected to be used.

Pursuant to CCDF regulations, and as part of the terms and conditions of the CCDF grant awards, states are also required to complete and submit a quarterly financial status report (ACF-696).

For our testwork, we reviewed

- supporting documentation for CCDF obligations to determine whether the department met CCDF matching requirements for its Matching fund award for the federal fiscal year October 1, 2013, through September 30, 2014 (FFY 2014);

- CCDF expenditure transactions during the audit period to determine whether the department complied with period of performance requirements for CCDF; and

- ACF-696 reports submitted to the federal government for our audit period to determine whether the information reported in quarterly ACF-696 reports was accurate and complete.

Of the $33,960,069 in federal Matching funds granted to the state for FFY 2014, the department expended $27,971,672 during the audit period, July 1, 2014, through June 30, 2015, and an additional $5,849,745 during the prior audit period, July 1, 2013, through June 30, 2014, for a total of $33,821,417.

Condition

Noncompliance With Matching and Period of Performance Requirements for the Matching Fund

To be eligible for federal funds provided under the Matching fund for FFY 2014, the department was required to obligate all Mandatory funds by September 30, 2014.

We found that because not all Mandatory funds were obligated timely, the Director of Child Care Services did not ensure that the department complied with matching requirements for CCDF. Specifically, $3,462,569 of the Mandatory funds granted to the department for FFY 2014 were obligated for child care services between October 1, 2014, and June 30, 2015, after the September 30, 2014, deadline. In addition, we found that $15,231 of the federal Mandatory funds granted to the department for FFY 2014 were obligated for payroll, benefits, and travel between October 1, 2014, and June 30, 2015, after the deadline.

Because the Director of Child Care Services did not ensure that all Mandatory funds were obligated by September 30, 2014, the department was ineligible to receive the federal Matching funds granted for FFY 2014.

The Director of Child Care Services also did not ensure that all federal Matching funds were obligated in the proper federal fiscal year. Specifically, the department obligated $20,137,043 in federal Matching funds granted to the state for FFY 2014 in the subsequent federal fiscal year, which is in violation of federal regulations. These obligations were for the provision of child care services.

We found that the noncompliance with matching and period of performance requirements for the Matching fund occurred primarily because the department did not have a control in place to ensure that funds used for child care services were obligated prior to the dates that families received the child care services. Specifically, based on our review of a child care certificate and review of the 2014-2015 Child Care and Development Fund Plan for Tennessee, the amounts of funds to be paid to child care providers or families were excluded from child care certificates issued by the department; therefore, Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 60(d)(6) prohibits considering the issuance of child care certificates to represent an obligation of CCDF Matching or Mandatory funds. Instead, funds used for child care services were required to be considered obligated on the date that child care services were received.

Based on discussion with the Director of Child Care Services and our review of the information system used to record the issuance of child care certificates (Tennessee Child Care Management System), the system was not designed to calculate and document the required obligation information on the child care certificates or to track the funding sources expected to be used to provide services through the child care certificates.

Furthermore, the department did not have adequate controls in place to ensure that Mandatory funds granted for a prior federal fiscal year were not used for payroll, benefit, and travel obligations incurred in a subsequent federal fiscal year.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We determined that management did not document the risks or mitigating controls associated with obligating all Mandatory funds in order to be eligible for Matching funds for CCDF or obligating all federal funds within the required period of performance in the department's annual risk assessment.

Criteria

According to 45 CFR 98.53(c)(3),

> All Mandatory Funds are obligated in accordance with Section 98.60(d)(2)(i).

In order to receive federal Matching funds for a fiscal year, according to 45 CFR 98.60(d)(2)(i),

> Mandatory Funds for States requesting Matching Funds per Section 98.53 shall be obligated in the fiscal year in which the funds are granted.

According to 45 CFR 98.60(d)(3),

> Both the Federal and non-Federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted.

According to 45 CFR 98.60(d)(4),

> determination of whether funds have been obligated and liquidated will be based on: (i) State or local law; or, (ii) If there is no applicable State or local law, the regulation at 45 CFR 92.3, Obligations and Outlays (expenditures).

We could identify no applicable state or local law that defines "obligation"; therefore, in accordance with 45 CFR 98.60(d)(4)(ii), "obligation" is defined by 45 CFR 92.3 as,

> the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.

According to 45 CFR 98.60(d)(6),

> For purposes of the CCDF, funds for child care services provided through a child care certificate will be considered obligated when a child care certificate is issued to a family in writing that indicates: (i) The amount of funds that will be paid to a child care provider or family.

Cause

Based on discussion with the Chief Financial Officer and the Director of Quality Assurance, they were of the opinion that 45 CFR 98.60(d)(6) did not preclude considering the issuance of child care certificates to represent an obligation of CCDF Matching or Mandatory funds if the certificate included the rate to be paid to the provider (or sufficient information to determine the rate, such as the provider name, child's age, and care schedule).

However, because 45 CFR 98.60(d)(6) explicitly requires the amount of funds to be paid to providers to be included on a child care certificate in order for the issuance of the certificate to represent an obligation, our interpretation was that a payment rate would not satisfy the requirement. Instead, we concluded that the obligation date for a child care certificate that includes the payment rate but excludes the total or maximum amount to be paid to the provider is the date on which the services are provided (not the date the certificate was issued).

We reached this conclusion because when a child care certificate includes only a rate of payment, there is no specified limit to the amount of funds that may ultimately be paid to the provider. As such, it is not possible to use the rate alone to draw conclusions about the amount of funds that the state is obligated to pay the provider in the future; therefore, the obligation amount would only be specified as the child care services are provided. Our conclusion that the obligation date for certificates that include rates (instead of maximum or expected amounts) is the date on which the amount the state is required to pay becomes known is consistent with Volume 75, *Federal Register*, Section 177, pages 55667–55668 (September 14, 2010), which states,

> For a program like the school lunch program, however, where the initial subaward provides the subrecipient with an open-ended authorization of unspecified amount [only the reimbursement rate to be provided for each meal claimed is known], the obligation date corresponds to the date on which the amount of the obligation is specified.

In addition, even if we assumed that inclusion of a rate to be paid to the provider (or sufficient information to determine the rate) was adequate to meet the requirements of 45 CFR 98.60(d)(6), based on our review of a child care certificate and review of the 2014-2015 Child Care and Development Fund Plan for Tennessee, child care certificates did not include the payment rate(s) to be paid to providers of child care services or sufficient information to determine the payment rate(s), such as the type of provider (unregulated, child care center, etc.), the provider's star quality rating, or the provider's county.

Finally, even if the rate (or sufficient information to determine the rate) was included in the child care certificates, the department would be unable to demonstrate that all Mandatory and Matching funds were obligated timely without establishing a process for calculating the total amount of federal funds expected to be paid under each child care certificate and then aggregating these amounts by the funding source or sources (Mandatory fund, Matching fund, Discretionary fund, non-federal funds, etc.) expected to be used to pay for the child care services. Without establishing such a process, the department would be unable to determine the amount of Mandatory or Matching funds obligated at any given time. As noted above, the department's information system was not designed to perform such calculations.

Effect

Noncompliance with the period of performance and matching requirements exposes the department to the risk that the U.S. Department of Health and Human Services will seek to recover the federal share of Matching fund expenditures that were improperly obligated and expended. Since, as discussed previously, the U.S. Department of Health and Human Services reallocates Matching funds that are not obligated during the period of performance in accordance with 45 CFR 98.64(c)(1), expending federal Matching funds outside the period of performance resulted in the department using federal funds that would have otherwise been reallocated to other states.

Questioned Costs

Due to the department's failure to obligate all Mandatory funds in the proper federal fiscal year, we questioned all $33,821,417 of the federal share of expenditures charged to the Matching funds granted to the state for FFY 2014.

The $20,137,043 in federal Matching funds that the department improperly obligated during the audit period, July 1, 2014, through June 30, 2015, is already included in the $33,821,417 in questioned costs related to the department's failure to obligate all Mandatory funds in the federal fiscal year in which the Mandatory funds were granted. Therefore, we did not question additional costs due to the department's failure to comply with period of performance requirements for Matching funds.

Condition

Noncompliance With Period of Performance Requirements for Discretionary Funds

The Director of Child Care Services did not ensure that the Accountant adhered to period of performance requirements when charging expenditures to the CCDF award provided for FFY 2015. Specifically, the Accountant improperly transferred $741,918 in expenditures that were obligated in FFY 2014 from FFY 2014 Discretionary funds to FFY 2015 Discretionary funds. Because the period of performance for FFY 2015 Discretionary funds did not begin until FFY 2015, expenditures with FFY 2014 obligation dates may not be transferred to the FFY 2015 award.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We determined that management did not document the risks or mitigating controls associated with obligating all federal funds within the required period of performance in the department's annual risk assessment.

Criteria

According to 45 CFR 98.60(d)(1),

Discretionary Fund allotments shall be obligated in the [federal] fiscal year in which funds are awarded or in the succeeding [federal] fiscal year.

Cause

The department had drawn down all of its FFY 2014 Discretionary funds by September 29, 2014. As a result, excess expenditures that were charged to the FFY 2014 Discretionary funds needed to be moved to another funding source. It does not appear that the department had established adequate controls for ensuring compliance with period of performance requirements when transferring expenditures from one funding source to another. In addition, based on discussion with the Accountant, he was unfamiliar with period of performance requirements for CCDF. Because he was not aware that transferring expenditures resulting from FFY 2014 obligations to FFY 2015 Discretionary funds was not permissible, the Accountant transferred the expenditures to FFY 2015 Discretionary funds instead of transferring the expenditures to state funding sources.

Effect

Similar to our Matching funds condition, noncompliance with the period of performance requirements exposes the department to the risk that the U.S. Department of Health and Human Services will seek to recover the federal funds that were improperly obligated and expended. According to 45 CFR 98.64(b), if a state does not obligate Discretionary funds within the funds' period of performance, the U.S. Department of Health and Human Services reallocates those funds to other states; therefore, expending Discretionary funds outside the period of performance resulted in DHS using federal funds that would have otherwise been reallocated to other states.

Questioned Costs

We questioned $741,918 in expenditures charged to the FFY 2015 Discretionary funds.

Condition

Inaccurate Reporting of Obligation Information

Based on our testwork for the ACF-696 report for the period ended September 30, 2014; for the FFY 2014 CCDF grant award and the ACF-696 reports for the period ended June 30, 2015; and for the FFY 2015 and FFY 2014 grant awards, we noted several instances in which the Accountant responsible for preparing the report did not ensure that obligation information included in the reports was accurate. The discrepancies that we noted are summarized in the table below:

FY of Grant Award	End of Reporting Period	Line	Line Description	Fund	Department Reported	Actual Amount	Difference
2014	9/30/2014	4	Federal Share of Unliquidated Obligations	Mandatory	$15,403,463	-	$15,403,463

2014	9/30/2014	7	Unobligated Balance	Mandatory	-	$15,403,463	($15,403,463)
2014	9/30/2014	4	Federal Share of Unliquidated Obligations	Matching	$5,103,895	-	$5,103,895
2014	9/30/2014	7	Unobligated Balance	Matching	-	$5,103,895	($5,103,895)
2015	6/30/2015	4	Federal Share of Unliquidated Obligations	Mandatory	$27,145,340	-	$27,145,340
2015	6/30/2015	7	Unobligated Balance	Mandatory	-	$27,145,340	($27,145,340)
2015	6/30/2015	4	Federal Share of Unliquidated Obligations	Matching	$18,770,458	-	$18,770,458
2015	6/30/2015	7	Unobligated Balance	Matching	-	$18,770,458	($18,770,458)

Similar to the condition above entitled Noncompliance With Matching and Period of Performance Requirements for the Matching Fund, the reporting errors we identified were related to the fact that 45 CFR 98.60(d)(6) prohibits considering the issuance of child care certificates to represent an obligation of CCDF Matching or Mandatory funds, unless the child care certificates include information regarding the amount of funds to be provided to child care providers or families. Because the department did not include the required information on the child care certificates and did not use contracts to obligate Mandatory or Matching funds, the unliquidated obligations of Mandatory and Matching funds should have been reported as zero for all of the department's ACF-696 report submissions. Because there were no unliquidated obligations, any unexpended Mandatory or Matching funds would therefore be required to be reported as a component of the unobligated balance.

Based on our testwork and discussion with the Accountant responsible for preparing the report, we found that the Accountant did not calculate unliquidated obligations using documentation that supported the reported amounts. Instead, for both Matching and Mandatory funds, the Accountant calculated the amount of unliquidated obligations by subtracting federal expenditures from the total amount of the federal grant award. As a result, the report indicated that all federal grant funds were obligated if the funds had not been expended. For the Discretionary fund, we identified no evidence to suggest that the Accountant reviewed contracts obligating Discretionary funds in order to calculate the amount of unliquidated obligations.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2014 Financial Integrity Act Risk Assessment. We noted that management documented in the annual risk assessment that there was a high impact and a remote (low) likelihood that all required federal reports are not submitted accurately and timely. Given the frequency with which we identified inaccuracies in federal reports, we concluded that management should have assessed the likelihood as probably (high) and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

Provision 18 in the "Financial and Program Progress Reporting" section of the terms and conditions of the grant award requires the grantee to submit quarterly ACF-696 reports in accordance with the grantor's *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)*. According to the instructions, grantees are required to report the federal share of unliquidated obligations and the unobligated balance of federal funds on line four and seven of the report, respectively.

Cause

During our fieldwork, the Accountant asserted on multiple occasions that a Financial Operations Specialist within the Atlanta regional office of the U.S. Department of Health and Human Services' Administration for Children and Families would not permit him to report any number except for zero as the unobligated balance amount (line 7), thereby preventing him from reporting accurate amounts for unliquidated obligations and unobligated balances. The Accountant claimed that the reporting system also would not accept his submission if any unobligated balances were reported. According to 45 CFR 98.64(c)(3) and the ACF-696 instructions, the purpose of reporting unobligated balances is to inform the U.S. Department of Health and Human Services when a grantee must return grant funds. The department cannot meet this objective unless it reports any unobligated balances, as required. Because the Accountant's assertions were inconsistent with the report's objectives and the Accountant provided no supporting evidence, we could not verify the Accountant's assertions.

Effect

According to the ACF-696 instructions, Matching funds that remain unobligated after the one-year obligation period will be returned to the federal government and reallocated; however, noncompliance with reporting requirements prevented the U.S. Department of Health and Human Services from identifying the Department of Human Services' noncompliance with period of performance requirements. As a result, the reporting noncompliance contributed to the department's use of federal funds that would have otherwise been reallocated to other states. In addition, according to the terms and conditions of the grant award for CCDF, failure to comply with the terms and conditions may result in the loss of federal funds and may be considered grounds for the suspension or termination of the grant.

Summary of All Questioned Costs

Condition	Questioned Costs
Noncompliance with Matching Requirements	$33,821,417
Noncompliance with Period of Performance Requirements for Discretionary Funds	$741,918
Total	$34,563,335

Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should ensure that the Tennessee Child Care Management System is redesigned so that each child care certificate issued within the system will include the amount of funds obligated, as well as the time period during which the certificate may be used, in accordance with 45 CFR 98.60(d)(6). In addition, the system should be able to use the Edison speedchart[44] information to identify the amounts of obligations by funding source (for example, for each child care certificate, the amount of obligations from state CCDF funds, federal Matching funds, federal Mandatory funds, federal Discretionary funds, etc.). Without this type of detailed information, the department will be unable to demonstrate that all Mandatory funds and Matching funds were obligated within the required periods.

The Commissioner should also ensure that staff review the data in the child care certificate system quarterly and verify that the department's obligations of Mandatory funds are expected to be sufficient to permit the receipt of Matching funds. Staff should additionally review obligation data to ensure compliance with all period of performance requirements during this process. The process should be performed and documented by one staff member and approved by a second staff member.

Furthermore, the Commissioner should establish adequate internal controls for ensuring that department staff comply with the instructions for federal reports.

Finally, the Commissioner should ensure that the department's annual risk assessment includes 1) the risks and mitigating controls associated with obligating all Mandatory funds in order to be eligible for Matching funds for CCDF, 2) the risks and mitigating controls associated with obligating all federal funds within the required period of performance, and 3) the mitigating controls associated with reporting accurate financial information for grant awards.

Management's Comment

We do not concur.

The Department does not agree with the questioned costs. All expenditures made were for allowable program costs and activities.

The State Auditors based their questioned cost of over $33.7 million on whether the department obligated all Mandatory funds by September 30, 2014. The department does not agree that the funds were not obligated. The department has an obligation to the eligible families once the child care certificate is issued. The department issues the child care certificate to eligible families with specific eligibility timeframe and specific category(s) for the care needed for the

[44] Speedcharts are codes in Edison that can be used to charge expenditures to one or more funding sources, such as state funds, Mandatory CCDF funds, and Discretionary CCDF funds.

children. The certificate includes provider information, the care level, and the fee, if any, that the family will pay. Child Care Certificate Program Provider Reimbursement Rates are available to a family in receipt of a child care certificate and can readily identify the amount available. Parent(s) can use the information provided on the certificate to learn the exact value of the certificate. The schedule of those rates is updated regularly and available to families and childcare providers on the department's website:

https://www.tn.gov/assets/entities/humanservices/attachments/Provider_Rate_Schedule_10-1-15.pdf

The Department does not agree with the questioned cost of $741,918. The amount questioned was for expenditures that were for allowed activities and allowed costs under the Child Care and Development Fund program. The department agrees that the expenditures for FFY2014 Discretionary Funds were not transferred timely to the FFY15 Discretionary Award. The department will improve monitoring to ensure timeliness.

Auditor's Comment

According to Section 105 of OMB Circular A-133 and 2 CFR 200.84, questioned costs are costs an auditor questions because the costs either (a) resulted from a violation or possible violation of federal requirements, (b) were not supported by adequate documentation, or (c) were unreasonable. DHS management expended CCDF matching funds that DHS was not eligible to receive, and DHS management used FFY 2015 Discretionary funds to pay FFY 2014 obligations. In both cases, the costs resulted from violations of federal requirements; therefore, we questioned the costs.

Management did not include sufficient information in the child care certificates to consider CCDF funds obligated upon the issuance of child care certificates and therefore management could not provide evidence to support its assertion that all CCDF Mandatory funds were obligated.

DHS management's assertion that parents can "use the information provided on the certificate to learn the exact value of the certificate" is misleading. Although DHS management provides a website address that includes a schedule of provider reimbursement rates, a parent must know the provider's type, quality rating, and county (none of which are included on the certificate) in order to use the schedule to determine which of the 130 rates the provider will be paid. As a result, parents cannot use the information on the certificate to learn the exact value of the certificate.

Finally, regardless of the content of child care certificates, FFY 2014 Mandatory funds were obligated in FFY 2015 for payroll, benefits, and travel (as noted in the finding). Therefore, it is not clear how DHS management concluded that all Mandatory funds were obligated in FFY 2014.

Finding Number	2015-048
CFDA Number	96.001
Program Name	Disability Insurance/Social Security Insurance Cluster
Federal Agency	Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	04-13-04TNDI00, 04-14-04TNDI00, and 04-15-04TNDI00
Federal Award Year	2012 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Disability Determination Services' Director did not verify quarterly reports were accurate before submission to the Social Security Administration

Background

Disability Determination Services (DDS) in the Department of Human Services is responsible for completing the SSA-4514 "Time Report of Personnel Services for Disability Determination Services." This quarterly report includes all hours worked by DDS personnel engaged in the Social Security Administration's (SSA) disability program during the reporting period. DDS must submit the report no later than 30 days after the close of the quarter. The Administrative Secretary creates the reports, which are reviewed by the Director of DDS before being submitted to SSA.

Condition

For our audit period of July 1, 2014, through June 30, 2015, we reviewed the SSA-4514 reports for the quarters ending September 2014 and December 2014 for completeness and accuracy. We found that the Administrative Secretary did not report the correct number of personnel service hours in either of the reports we tested. We also determined that for the September 2014 report (Revision 1), the Administrative Secretary did not complete the required "Remarks" field documenting the reason for the report revision. After we brought this omission to management's attention, management made multiple revisions to the original September report and other quarterly reports to correct errors.

Table 1 – Quarter Ending September 2014

Originals and Revisions	Date Filed	Reported Personnel Hours	Actual Personnel Hours	Difference (reported hours less actual hours)	Percentage of Misstatement
Original	10/23/2014	429,968.97	230,116.35	199,852.62	46%
Revision 1	8/7/2015	442,120.05	230,116.35	212,003.70	48%
Revision 2	8/7/2015	442,480.05	230,116.35	212,363.70	48%
Revision 3	8/19/2015	230,114.35	230,116.35	(2.0)	(.001%)
Revision 4	10/1/2015	230,116.35	230,116.35	0	0%

The purpose of each revision is described as follows:

- **Revision 1:** On August 7, 2015, the Administrative Secretary made a correction to adjust the part-time Medical Consultant's unit hours; however, the revised report did not reconcile with the supporting documentation after the correction was made. In addition, the required "Remarks" field was not completed on the report to show which changes were made.
- **Revision 2:** On August 7, 2015, the Administrative Secretary transposed two digits, causing an error in the Medical Consultant's hours.
- **Revision 3:** After we requested variance explanations on August 18, 2015, for the increase in total hours, the Administrative Secretary discovered the hours had been doubled for each line of the report.
- **Revision 4:** On October 1, 2015, the Administrative Secretary made a correction for the Systems Specialist's hours, as they did not reconcile with supporting documentation.

Table 2 – Quarter Ending December 31, 2014

Originals and Revisions	Date Filed	Reported Personnel Hours	Actual Personnel Hours	Difference (reported hours less actual hours)	Percentage of Misstatement
Original	1/20/2015	229,390.34	228,895.34	495.00	0.2%
Revision 1	8/20/2015	228,895.34	228,895.34	0	0%

Regarding the purpose of the revision, the Administrative Secretary made a correction for the full-time examiner's hours since one full-time examiner was listed twice in the system. On August 20, 2015, the Administrative Secretary corrected the duplicate entry.

Table 3 – Quarter Ending March 31, 2015

Originals and Revisions	Date Filed	Reported Personnel Hours	Actual Personnel Hours	Difference (reported hours less actual hours)	Percentage of Misstatement
Original	4/22/2015	216,781.60	216,301.57	483.03	0.2%
Revision 1	10/14/2015	216,301.57	216,301.57	0	0%

While we did not originally select the March 2015 quarterly report for testwork, the Director of DDS requested that the Administrative Secretary review the report again. Consequently, the Administrative Secretary discovered a human error and made a correction for the Medical Consultant's hours; we were then informed of the correction.

Additionally, the reporting errors illuminated deficiencies in the Director of DDS' review process.

We further noted that the federal risks identified in this finding were not addressed in the department's risk assessment.

Criteria

The SSA Program Operations Manual System, Disability Insurance 39506.231, "Preparation Instructions for Form SSA-4514," Section A, states,

> This report should reflect all hours worked by personnel engaged in the SSA disability program during the reporting period.

As it relates to the "Remarks" field on the report, Section E of the instructions states,

> Explain in this space any unusual situations . . . to clarify the report.

Cause

We found through discussion and walkthroughs with staff that management did not perform its review process to confirm report accuracy and completeness before submission to SSA. The Administrative Secretary and the Director of DDS did not verify the SSA-4514 reports against supporting documentation to ensure their accuracy. The Administrative Secretary did not input the correct hours worked due to a keystroke error, did not complete the required "Remarks" field in the report to explain a report revision, and did not notice a duplicate entry in the data used to create the report. These errors were not discovered until we requested an explanation for variances in the reports.

Effect

Because of lack of proper review, the Director of DDS unknowingly submitted incorrect financial information to the federal grantor. Therefore, management has increased its risk that the state and federal grantor will rely on inaccurate financial data for programmatic and fiscal decisions for the program. The failure to establish adequate internal controls over reporting increases the risk that material noncompliance could continue to occur and remain undetected.

Recommendation

The Director of DDS should ensure federal reports are completed accurately and completely in accordance with SSA requirements. The review process should be revised to ensure staff verify all data with supporting documentation prior to report submission.

Management's Comment

We concur.

The Department agrees and initiated steps on September 9, 2015, to improve the quarterly SSA 4514 review process, which includes but is not limited to review and reconciliation of supporting documentation. Moving forward, the Department will take necessary corrective measures with employees who do not follow the prescribed review process.

Finding Number	2015-049
CFDA Number	17.207, 17.225, 17.258, 17.259, 17.278, 17.801, 17.804, and 84.002
Program Name	Employment Service Cluster Unemployment Insurance Workforce Investment Act Cluster Adult Education – Basic Grants to States
Federal Agency	Department of Labor Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-23025-12-55-A-47, ES-24646-13-55-A-47, ES-26046-14-55-A-47, DI-22464-11-75-A-47, UI-21127-11-55-A-47, UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-25232-14-55-A-47, EUC, Fed EB, UCFE, and UCX, TUC-State Expenditures, FAC Benefits & UI Admin, UI-26421-14-60-A-47, UI-21127-11-55-A-47, UI-22341-12-55-A-47, UI-22341-12-55-A-47, UI-22341-12-55-A-47, UI-26562-15-55-A-47, UI-27133-15-55-A-47, UI-25232-14-55-A-47, ES-24646-13-55-A-47, AA-24120-13-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, DI-22464-11-75-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, AA-26807-15-55-A-47, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47,AA-25381-14-55-A-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-26574-15-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, V002A120043, V002A130043, and V002A140043
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Labor and Workforce Development did not provide adequate internal controls in one specific area

The Department of Labor and Workforce Development did not provide adequate internal controls in one specific area, related to seven of the department's systems. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur.

Department management is working with applicable staff to address the issues mentioned by the auditors. Departmental and subrecipient staff were emailed on January 5, 2016, and January 12, 2016, informing them of procedural changes and an emphasis on the issues mentioned by the auditors.

Finding Number	2015-050
CFDA Number	17.207, 17.225, 17.801, and 17.804
Program Name	Employment Service Cluster Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-23025-12-55-A-47, ES-24646-13-55-A-47, ES-26046-14-55-A-47, DI-22464-11-75-A-47, UI-21127-11-55-A-47, UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-25232-14-55-A-47, EUC, Fed EB, UCFE, and UCX, TUC-State Expenditures, FAC Benefits & UI Admin, UI-26421-14-60-A-47, UI-21127-11-55-A-47, UI-22341-12-55-A-47, UI-22341-12-55-A-47, UI-22341-12-55-A-47, UI-26562-15-55-A-47, UI-27133-15-55-A-47, UI-25232-14-55-A-47, ES-24646-13-55-A-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-26574-15-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-19651-10-55-5-47, DV-26574-15-55-5-47
Federal Award Year	2011 through 2015
Finding Type	Noncompliance
Compliance Requirement	Reporting – Employment Service Cluster and Unemployment Insurance Special Tests and Provisions – Unemployment Insurance
Questioned Costs	$5,537,260 (17.225)
Repeat Finding	N/A

Due to disputes or lack of coordination between federal agencies, the Department of Labor and Workforce Development was unable to allow us access to earnings and employment data and federal tax information, thereby inhibiting our ability to provide an opinion on certain compliance requirements

Background and Criteria

Reporting

The United States Department of Labor (USDOL) requires state agencies, including the Department of Labor and Workforce Development, to create certain quarterly performance and financial reports. For the Unemployment Insurance program, these reports include the Trade Activity Participant Report, a performance report that facilitates the collection and reporting of background information on Trade Adjustment Assistance program participants, their training and services received, and the eventual earnings and employment information[45] collected after program exit.

Similarly, for the Employment Service Cluster, USDOL requires the department to submit the Employment and Training Administration (ETA) 9002 report, a performance report for Wagner-

[45] Employment data includes employment history and job retention information.

Peyser Act funded services consisting of six sections to report the services, outcomes, job openings, and priority of service for veterans and transitioning service members. In conjunction with the ETA 9002, the department submits the Veterans Employment and Training Service (VETS) 200 report, a subset of the ETA 9002 data that only applies to the activities of participants who received services from Disabled Veteran Outreach Program and Local Veterans Employment Representatives staff. Both reports involve the collection, retention, and reporting of participant earnings and employment data.

Preparation of the Unemployment Insurance and Employment Service performance reports consists of accumulation of earnings and employment data for state workers, as well as out-of-state and federal workers. To obtain earnings and employment data for out-of-state and federal workers, the department entered into data sharing agreements with the Wage Record Interchange System (WRIS), WRIS 2, and the Federal Employment Data Exchange System (FEDES). USDOL contracted with the State of Maryland for developing the earnings and employment data exchange, which in turn subcontracted with the University of Baltimore to operate the data exchange.

Section VIII(B)(1) of the department's WRIS and WRIS 2 data sharing agreements specifies, "No employee of the PACIA [Performance Accountability and Customer Information Agency] may duplicate or disseminate wage data received from a SUIA [State Unemployment Insurance Agency], subject to the following exceptions: . . . c) To auditors who are public employees seeking access to the information in the performance of their official duties."

According to Part 3 of the *Office of Management and Budget Circular A-133 Compliance Supplement 2015*, the performance reporting audit objective is to "[d]etermine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements."

Part 4 of the compliance supplement instructs auditors to test 12 key line items on the Trade Activity Participant Report; 11 of these items pertain to earnings and employment data. All three key line items for the ETA 9002 and four key line items for the VETS 200, as listed in Part 4 of the compliance supplement, involve earnings and employment data.

Special Tests and Provisions

To ensure the integrity of the Unemployment Insurance program, USDOL mandates that the Department of Labor and Workforce Development and other state agencies provide only eligible individuals with benefits. When an individual receives unemployment benefits to which he or she is not entitled, whether due to error or fraud, an overpayment occurs. The department instituted a multi-phase process to collect identified overpayments. One mechanism through which the department collects overpayments is the Treasury Offset Program, which intercepts individuals' federal tax refunds.

In addition to the principal overpayment amount, the department imposes penalties and interest on individuals whose fraudulent acts resulted in an overpayment. Under 50-7-715(b), *Tennessee*

Code Annotated, fraudulent overpayments incur a penalty of 22.5%, composed of a federally mandated penalty of 15% and an additional state penalty of 7.5%. Section 303(a)(11) of the Social Security Act requires the department to deposit the 15% federal penalty into the state's account in the USDOL Unemployment Trust Fund.

Part 4 of the compliance supplement lists one objective of the UI (Unemployment Insurance) Program Integrity – Overpayments special test as "properly identifying and handling overpayments, including, as applicable, assessment and deposit of penalties and not relieving employers of charges when their untimely or inaccurate responses cause improper payments." The related audit procedure states, "Based on a sample of overpayment cases: . . . If the overpayment was based on fraud, determine if the claimant was notified of the 15 percent penalty, and if there was no appeal or the claimant was unsuccessful in appeal, there was follow-up to collect the penalty, and the State deposited the penalty into the State's account in the Unemployment Trust Fund."

Additionally, the *Internal Revenue Code*, Section 6103(d)(2), includes the following audit provision:

> **(A) In general** Any returns or return information obtained under paragraph (1) by any State agency, body, or commission may be open to inspection by, or disclosure to, officers and employees of the State audit agency for the purpose of, and only to the extent necessary in, making an audit of the State agency, body, or commission referred to in paragraph (1).
>
> **(B) State audit agency** For purposes of subparagraph (A), the term "State audit agency" means any State agency, body, or commission which is charged under the laws of the State with the responsibility of auditing State revenues and programs.

Audit Provision in State Law

Section 8-4-109(a)(2), *Tennessee Code Annotated*, states,

> 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 of Tennessee 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.

Condition

Reporting

To fulfill our Single Audit responsibilities, we obtained the population of 3,852 Trade Activity Participant Report participants from the September 30, 2014, quarterly report extract and 2,553 participants from the March 31, 2015, quarterly report extract, for a combined total of 6,405. From the combined total of participants, we selected a random, nonstatistical sample of 60 participants (30 from each of the two extracts) to test the accuracy of earnings and employment data appearing on the reports. Department of Labor and Workforce Development management and staff said they were unable to provide us with supporting documentation for the earnings and employment data. Therefore, we were unable to fulfill our audit requirements as prescribed in the 2015 compliance supplement to determine the accuracy of the reported data.

For the ETA 9002 and VETS 200 reports, we obtained the total population of 89,802 job seeker records from the June 30, 2015, quarterly report data extract. Our audit plan was to select a random, nonstatistical sample of 60 records to determine the accuracy of earnings and employment data reported. Since department management and staff could not provide us with this data (like for the Trade Activity Participant Report), we could not complete our federally required testwork.

Special Tests and Provisions

For our overpayments testwork, we selected 61[46] of the 11,220 benefit overpayments established in fiscal year 2015 that were equal to or in excess of $1,000. In total, our testwork encompassed $120,270 of the $21,568,655 overpayments. The department used the Treasury Offset Program in its collection of nine of the overpayments we selected for testwork. Department management and staff, however, declined to provide us with the amounts collected via the Treasury Offset Program due to Internal Revenue Service federal tax information disclosure limitations. As a result, we were unable to trace the collections to the state's account in the Unemployment Trust Fund as required in the 2015 compliance supplement.

Cause

The Department of Labor and Workforce Development was unable to allow us access to earnings and employment data and federal tax information due to disputes or lack of coordination between federal agencies, described in detail below.

Reporting

Based on discussions with department management, due to confidentiality concerns, only those personnel authorized by USDOL may access earnings and employment data. Management said they were bound to the data sharing agreements they had signed regarding limiting access and were therefore unable to release the requested data to us. Management specifically stated the following on November 16, 2015:

> *The University of Baltimore has responded regarding the access of FEDES data and has stated access is denied for auditors satisfying state purposes. Access is limited to performance measurement and consumer report activities required by the United States Office of Management and Budget (OMB) or Federal law or*

[46] Of the 61 overpayments, we selected 2 haphazardly and the remaining 59 randomly.

regulation only. Due to the data of WRIS, WRIS2 and FEDES being combined in the system, we are unable to provide the wage data.

Upon receiving this information, we contacted the Office of Workforce Information and Performance Director with the Maryland Department of Labor, Licensing and Regulation, who serves as the liaison between the State of Maryland and University of Baltimore. We clarified that we were attempting to satisfy federal audit requirements promulgated in the 2015 compliance supplement. The Office of Workforce Information and Performance Director told us on December 1, 2015, that she lacked the authority to give us approval to access the earnings and employment data and referred us instead to the Assistant Attorney General with the Maryland Department of Labor, Licensing and Regulation. The Assistant Attorney General responded on December 2, 2015, that granting approval was not under her authority either and that she would forward our inquiries to the U.S. Department of Defense and U.S. Office of Personnel Management. As of January 5, 2016, we have not received a response from either federal agency.

Special Tests and Provisions

Department management inquired with the Internal Revenue Service about whether we could access the exact amount of individual principal and penalty amounts collected through the Treasury Offset Program. An Internal Revenue Service Disclosure Enforcement Specialist answered on November 16, 2015, as follows: "*State Workforce Agencies participating in the Treasury Offset Program under IRC [Internal Revenue Code] 6103(l)(10) for benefits collection are prohibited from redisclosing FTI [Federal Tax Information]. State auditors* ***cannot*** *have access to the individual amounts under this code section.*"

We then contacted the Internal Revenue Service ourselves, explaining that we needed access to the individual Treasury Offset Program amounts in order to fulfill federal Single Audit requirements. On December 2, 2015, the Disclosure Enforcement Specialist remained firm that we could not access the amounts.

In December 2015, we also communicated with five other states to discuss their access to federal tax information for the purpose of auditing the Unemployment Insurance program. We determined that their access levels were inconsistent, ranging from full access to no access.

Effect

USDOL representatives—including the Single Audit Coordinator—agreed that we should receive access to the federal tax information necessary to complete our testwork. They noted, though, that problems with accessing federal tax information served as a recurring theme in the audit of several federal programs. In lieu of obtaining access, the USDOL representatives advised us to issue a scope limitation on the Special Tests and Provisions compliance requirement for the Unemployment Insurance program.

These representatives also instructed us to question any costs related to that compliance requirement. We subsequently questioned all of the Department of Labor and Workforce

Development's fiscal year 2015 Treasury Offset Program collections, as shown in the following table.

Table 1
Questioned Costs

State Collections	Federal Collections	Total Collections / Questioned Costs
$4,460,869	$5,537,260	$9,998,129

The USDOL representatives claimed unfamiliarity with the WRIS, WRIS 2, and FEDES systems. We sent them additional information on December 9, 2015; we had not received a response as of January 8, 2016. In the absence of further guidance, we issued a scope limitation on the Reporting compliance requirement for the Employment Service Cluster and Unemployment Insurance program as well.

Failure to provide supporting documentation required for federal programs inhibits our ability to perform an audit of those programs, in that we could not determine the accuracy of reported data.

Recommendation

The United States Department of Labor should coordinate with the Internal Revenue Service and other federal agencies in order to resolve the issues surrounding auditors' access to earnings and employment data, along with federal tax information

Management's Comment

We concur.

We agree with the auditor's assertion regarding differing federal laws and regulations that prevent their access to the data and providing an opinion. We are only allowed to use and/or share the data, as specifically authorized by the applicable federal agencies. As of the beginning of February 2016, we still have not received permission to share the federal data with the auditors.

If possible solutions are requested by the applicable federal agencies, then we would be glad to offer possible solutions.

Finding Number	2015-051
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-24646-13-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2011 through 2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	2014-047

As noted in the prior audit, internal controls were not adequate in one area

The Department of Labor and Workforce Development still did not provide adequate internal controls in one specific area, related to one of the department's systems. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur and are working with the applicable federal government agency in implementing the applicable internal controls.

Finding Number	2015-052
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; ES-24646-13-55-A-47; TA-22684-12-55-A-47; TA-24370-13-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2014-038

Random audits of claimant activity were still not conducted

Background

In 2012, the Tennessee state legislature passed the Unemployment Insurance Accountability Act (the Act) in response to complaints from the employer community that an excessive number of Unemployment Insurance (UI) claimants receive benefits to which they are not entitled, particularly because they may not be attempting to find new employment. The Act strengthened eligibility requirements for claimants seeking unemployment benefits, including the requirement that UI claimants demonstrate a reasonable effort to secure work by contacting at least three employers per week or accessing services at a career center. The Act requires the Department of Labor and Workforce Development to conduct random weekly audits to verify the integrity of claimants' work search or career center activity. Current statute requires the department to randomly select a sample of 1,500 UI claimants per week from the entire population of claimants who are required to either search for work or access services at a career center. Therefore, the department should perform 78,000 audits per year.

When the Act was passed into law in 2012, prior department management told the legislature that an anticipated information systems upgrade would allow the department to automatically audit activity at minimal cost by requiring all UI claimants to record their weekly work search activity in a central database. Since 2012, the information systems upgrade has transformed into a larger project to modernize the entire UI system, and the upgrade is not anticipated to be completed until 2016. Based on inquiry with management, without the new system in place, the department has had to rely on its existing limited resources to meet audit requirements.

The responsibility for auditing this activity was initially assigned in compliance with state law to the Job Services unit, which was organized under the department's Employment Security Division at the time. In late 2012, the department transferred Job Services from the Employment Security Division (which remained in existence) to the newly created Workforce Services

Division. As a result of the reorganization, responsibility for claimant activity audits moved with Job Services to the Workforce Services Division, where it has remained since.

Condition and Cause

In the 2014 *Single Audit Report*, we included a finding that the department had not established a process to perform weekly audits of UI claimants and had not performed weekly audits of 1,500 claimants per week as required by the Act. Management did not concur with the finding and claimed they were in compliance with state statute, referencing the enhanced job search activity capturing capabilities that would become available upon UI system modernization and emphasizing that the department did not receive additional funding to execute the required audits.

Based on our interviews with Employment Security management, during fiscal year 2015, the department continued to follow the same process we identified as deficient in the prior audit. We again found that

- management has not selected random samples each week of 1,500 UI claimants to determine if each claimant had met the work search requirements; and
- when making organizational changes within the department, top management reassigned the responsibility of compliance with the Act's requirements to management of the Workforce Services Division, even though the Act places this responsibility with the department's Employment Security Division Administrator.

Workforce Services management stated that the department met the audit requirements by performing three types of activities. A description of these activities and the reasons we consider them insufficient are included below:

- *Department Activity* – Workforce Services staff periodically estimates the number of UI claimants who received services at the department's career centers and the number of claimants who were required to participate in the Reemployment and Eligibility Assessment[47] (REA) initiative.
  - *Reason Activity Is Insufficient* – While this activity is designed to provide management with the number of individuals who utilize the career centers and participate in REA, it is not designed to detect claimants who have not performed either the activity of accessing services at a career center or searching for work, which is the purpose of the individualized audits.
- *Department Activity* – Workforce Services staff conducts audits of work search activity of those claimants registered to use the department's jobs4tn.gov website.
  - *Reason Activity Is Insufficient* – The department does not require UI claimants to register to use the jobs4tn.gov website; thus, staff cannot select random weekly

[47] The Reemployment and Eligibility Assessment is a federal program designed to help certain at-risk unemployed individuals re-enter the workforce. In Tennessee, the program is known as the Reemployment Services Assessment.

audit samples from the entire population of UI claimants when auditing the work search activities of those registered.

- *Department Activity* – Employment Security staff working in the Benefit Accuracy Measurement (BAM) unit conducted the required audits.
    - ➢ *Reason Activity Is Insufficient* – BAM is a federally required unit that only audits 480 paid claims per year.

Criteria

According to Title 20, *Code of Federal Regulations,* Section 604.3,

> (a) A State may pay UC [Unemployment Compensation] only to an individual who is able to work and available for work for the week for which UC is claimed. . . .
>
> (c) . . . This Part does not limit the States' ability to impose additional able and available requirements that are consistent with applicable Federal laws.

Section 50-7-302(a)(4), *Tennessee Code Annotated*, specifies that a UI claimant

> shall provide detailed information regarding contact with at least three (3) employers per week or shall access services at a career center created by the department. The administrator shall conduct random verification audits of one thousand five hundred (1,500) claimants weekly to determine if claimants are complying with the requirement of contacting at least three (3) employers per week or accessing services at a career center.

Section 50-7-203(a), *Tennessee Code Annotated,* defines "the administrator" as "the chief administrative officer of the division of employment security of the department of labor and workforce development."

Effect

By failing to perform audits of claimant activity in the quantity and manner prescribed by the Act, the Employment Security Division has not fulfilled its obligation to employers and employees to ensure that UI benefits are appropriately distributed to claimants who comply with mandates meant to increase their chances to find new employment. The division has potentially missed opportunities to identify, suspend, and recoup payments issued to claimants who did not make a reasonable effort to secure work while collecting UI benefits.

Recommendation

The department should transfer responsibility for UI audits of claimants' work search or career center activity from the Workforce Services Division to the Employment Security Division Administrator. Pending completion of the UI systems modernization project, the Employment Security Division Administrator should develop a process to obtain a weekly population of all UI claimants who are required to either perform three work searches or access services at a career center. Staff should randomly select and audit a minimum of 1,500 claimants from this pool each week.

Management's Comment

We do not concur.

The state statute allows the UI claimant to have two options, which include contact with three (3) employers or services at a career center. The department has evidence showing UI claimants were receiving services through the career centers.

In response to the prior audit finding, the department submitted information to the United States Department of Labor (US DOL) in December 2015. As of January 12, 2016, the department has not received any further requests from US DOL or their decision.

Additionally, the new UI Benefit System will require the capturing of job search activities during the claimant's weekly certification.

Lastly, no funding was provided to enforce this state statute.

Auditor's Comment

Section 50-7-302(a), *Tennessee Code Annotated*, specifically states that

> . . . The administrator shall conduct random verification audits of one thousand five hundred (1,500) claimants weekly to determine if claimants are complying with the requirement of contacting at least three (three) employers per week or accessing services at a career center.

While some claimants did receive services through career centers, the purpose of the statute is to subject all claimants to a potential random audit in order to identify those who did not receive services at a career center or contact at least three employers per week. All claimants subject to the statutorily required audit did not receive services at a career center.

Finding Number	2015-053
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; ES-24646-13-55-A-47; TA-22684-12-55-A-47; TA-24370-13-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2014-039

The Department of Labor and Workforce Development corrected two of the four conditions noted in the prior audit; however, the department again did not meet the federal benefit payment standard or provide written notice of all agency decisions to interested parties

Background

The Department of Labor and Workforce Development's Employment Security Division administers the Unemployment Insurance (UI) program, which provides benefits to unemployed workers for periods of involuntary unemployment (workers who have lost their jobs through no fault of their own). According to state regulations, individuals filing UI claims with the department must meet certain earnings (monetary) requirements from past employment and must be currently unemployed or earning less than their weekly benefit amount up to the $275 maximum weekly benefit amount.

Claimants must also meet other non-monetary eligibility requirements before Employment Security Division staff can approve the claim. Examples of non-monetary requirements include the following: claimants must have separated from their most recent employer through no fault of their own, and claimants must be able to, and available for, work.

Once claimants' benefits are approved or their claim is pending, they are required to certify weekly that they are still unemployed, are not earning wages, and are actively looking for work. Claimants certify over the phone by answering a series of yes or no questions on their telephone keypad.

In the *Single Audit Report* for 2012, 2013, and 2014, we identified the following control weaknesses in the division's eligibility determination process that ultimately led to noncompliance:

- 2012 *Single Audit Report*
  - Condition Noted: Inadequate documentation to support eligibility determinations, including documentation for dependent benefit payments.
  - Management's Response: Management concurred and said that the Commissioner and executive leadership would create a plan for the development of a strong internal control system within the next 90 days.
- 2013 *Single Audit Report*
  - Condition Noted: Inadequate documentation to support eligibility determinations, including documentation for dependent benefit payments.
  - Management's Response: Management concurred in part, explaining the department's struggle with an inadequate case management system. Management disagreed with the lack of documentation for dependent payments and stated that its policies and procedures did not specifically require this documentation.
- 2014 *Single Audit Report*
  - Conditions Noted: (1) Inadequate documentation to support eligibility determinations, including documentation for one dependent benefit payment; (2) noncompliance with the federal benefit payment promptness standard; (3) claimants' separating employers not sufficiently contacted; and (4) review and approval procedures for agency decisions not followed.
  - Management's Response: Management concurred in part, pointing to the department's inadequate case management system and claims processing backlog but disagreeing that separation information requests and agency decision letters were always required.

For the current audit, we determined that the department corrected the prior conditions concerning inadequate documentation to support eligibility determinations and insufficient contact with claimants' separating employers.

Criteria and Condition

a. Standard for Benefit Payment Promptness

Title 20, *Code of Federal Regulations*, Section 640 states that the department should issue the first benefit payment based on the claim's eligibility decision within 14 days of the first compensable week.[1] Section 640 adds that the 14-day standard[48] should be met for a minimum of 87% of claims for the 12-month period ending March 31 of each year.

For our testwork, we selected a random, nonstatistical sample of 60 UI benefit payments with an initial claim date during fiscal year 2015 from a population of 160,504 weekly

[48] Section 50-7-302(a)(5)(A), *Tennessee Code Annotated*, requires a mandatory "waiting week" for which claimants do not receive unemployment benefits. Therefore, in Tennessee the standard is 21 days following the beginning of a claimant's eligibility (7-day waiting week + 14 days following the first compensable week).

benefits paid during the fiscal year. The sample represented $13,426 of $303,109,843 total benefit payments. We found that for 8 of the 60 claims tested (13%), division staff did not issue the claimant's first benefit payment within 14 days of the first compensable week, as required by the U.S. Department of Labor.

Furthermore, our review revealed that while the Department of Labor and Workforce Development's prompt payment percentage had consistently improved, the department did not meet the first benefit payment standard of 87% for the most recent federal performance compliance period of April 1, 2014, through March 31, 2015. The department instead averaged 80%. See Table 1 below.

Table 1
Reported Benefit Promptness

Month Ending Date	% of Prompt Payments
April 30, 2014	48.3%
May 31, 2014	63.6%
June 30, 2014	69.5%
July 31, 2014	76.4%
August 31, 2014	71.4%
September 30, 2014	83.0%
October 31, 2014	90.3%
November 30, 2014	93.4%
December 31, 2014	95.5%
January 31, 2015	93.8%
February 28, 2015	90.9%
March 31, 2015	81.2%
Benefit Promptness for Federal Performance Period	**79.8%**
April 30, 2015	86.1%
May 31, 2015	92.5%
June 30, 2015	94.3%
Benefit Promptness for Audit Period (State Fiscal Year)	**87.4%**

Source: The U.S. Department of Labor's website at http://www.oui.doleta.gov/unemploy/.

b. Agency Decision Notification

The Employment Security Division's *Handbook for Employers* states,

> After all the separation information has been received, the Department issues an Agency Decision. . . . The Agency Decision either approves or rejects the claim. Both the employer and the claimant have 15 days to appeal the Agency Decision if they disagree with the findings. If no

> appeal is made, or once the appeals process is completed, the Agency Decision becomes final and binding.

The agency decision letters we reviewed list the reason for the “approve” or “reject” determination.

Under “Who to Call,” the UI program manual additionally instructs staff, “Talk only to the person at the company who is authorized to release the separation information.”

To ensure all parties are adequately notified of an agency decision for a claim, best practices dictate that the department should provide a timely written notice to the claimant and the claimant’s separating employer of the agency decision and the reason for the decision. Furthermore, the benefit charge letter issued to employers refers them to an agency decision.

From the population of UI benefit payments paid during fiscal year 2015, we tested 60 claims totaling $13,539. For 6 claims (10%), we noted that division staff did not provide a written notification of the agency decision to the claimant and the claimant’s separating employer. All 6 claims cited “lack of work.” The division’s treatment of these claims was inconsistent with other “lack of work” claims where staff issued written notifications of agency decisions. Within our sample, we identified 26 other “lack of work” claims and found that for these claims, claimants and their separating employer received written notifications of the agency decisions.

<u>Cause</u>

a. <u>Standard for Benefit Payment Promptness</u>

According to the department’s Program Specialist 4, division staff delayed initial benefit payments on all eight claims either because the claimant failed to certify timely or staff initially denied the claim, but the claimant then successfully appealed that decision. The federal performance standard requires the department to report all untimely first payments, including those that occurred due to circumstances beyond the agency’s control.

The low prompt payment percentages between April and June 2014 are attributable to a backlog of claims during the entire fiscal year 2014 and the division’s prior use of an inadequate phone system.

b. <u>Agency Decision Notification</u>

A claims agent had verified the reason for separation over the telephone with the claimant’s former employer for five of the claims, and for the sixth claim, the employer sent in a response agreeing that lack of work was the reason for separation. Division management stated that written notifications of agency decisions are unnecessary in these circumstances because the claims are uncontested and employers receive written notices of the claims via an Employer Notice of Claim Filed (benefit charge letter). Management based this position on a September 22, 2015, email from a UI Program Specialist with the U.S. Department of Labor, which stated, "*TN State law and policy define interested parties who must be issued a written determination. Because TN sends a benefit charge letter to the employer which is appealable, the employer will receive formal documentation of the actions resulting from the claimant's UI claim.*"

Based on our review of a benefit charge letter, however, the letter did not contain all the information required to be communicated. Specifically, the benefit charge letter did not provide the reason for the determination; the letter instead refers the employer to the agency decision. We also noted that while the benefit charge letter for the separating employer specifies, "Protests should be mailed to the above address," the letter does not provide further instructions for appealing or list the 15-day deadline included in state law. Another important point is that the division does not send *any* benefit charge letter to separating employers who are not in the employee's base period.[49]

Furthermore, the agency decision letter could serve as an internal control to ensure that division staff contacted the authorized representative of the employer to confirm separation information.

Effect

By not complying with the first benefit payment promptness standard, the department places an undue hardship on claimants who are recently separated from employment. When division staff do not send written notifications of agency decisions, claimants and employers may not be fully informed of the reason for the agency decision. Not having this information could hinder the ability of claimants and employers to appeal agency decisions. Additionally, by not receiving any formal notification through an agency decision or benefit charge letter, the separating employer would remain unaware that a claimant filed an illegitimate "lack of work" claim, thus allowing errors or fraud to go undetected.

Recommendation

The Commissioner and Employment Security Administrator should continue to evaluate the benefit payment processes and analyze the reasons for the department's inability to meet the standards during the most recent federal performance period. In addition, they should ensure that staff send written agency decisions to claimants and their separating employers for all claims, regardless of the underlying reason for the claim.

Management's Comment

We concur in part.

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[49] According to the *Handbook for Employers*, the base period typically represents "[t]he first four of the last five completed calendar quarters immediately preceding the establishment of a claimant's benefit year." The benefit year consists of "[t]he 52-consecutive-week period beginning with the first day of the calendar week in which an individual files the first valid claim for benefits."

Prompt Payment:

As noted in the finding, timeliness was impacted by the backlog of claims during the entire fiscal year 2014. The backlog was cleared as of October 1, 2014, and the department has subsequently continued to improve on the percentage of claims paid timely and meeting/exceeding the performance standard set by USDOL. The improvement is noted in the auditors' testwork that indicated eight (8) of 60 claims (13%) did not meet first payment timeliness, which implies 52 of 60 claims (87%) did meet the requirement.

Non-monetary Determination Letters:

While the department considers sending a decision letter on all claims to be a good practice, it is not required for verified lack of work claims. Each of the six (6) claims identified in the audit were lack of work claims and the reason for separation was verified with the separating employer. A decision letter is issued on every claim that is filed, if that claim has a potentially disqualifying issue. Lack of work is not a potentially disqualifying issue. If lack of work can be verified with the employer, then claim can be approved without a decision letter, depending whether no other issue exists.

The department asked for and received direction from USDOL, who verified our understanding of this issue. Because it is considered a good practice to send a letter on every claim, the new Unemployment Insurance application will allow us to do that.

Finding Number	2015-054
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-24646-13-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

Benefit non-charges lacked supporting documentation

Background

The purpose of the Unemployment Insurance (UI) program is to provide economic security to workers who lose their jobs through no fault of their own. Employers pay quarterly premiums on taxable wages into a trust fund from which weekly UI benefits are issued to eligible claimants. The Employment Security Division within the Department of Labor and Workforce Development determines each employer's premium liability based on their experience rating—a tax rate that is recalculated each year to reflect the employer's ongoing history with the UI system, including benefits paid to former employees who separated from that employer through no fault of their own. An employer with a large amount of benefits paid to former employees will generally have a correspondingly high employer experience rating.

When the department approves a claimant for benefits, it generates and sends a notice of the filed claim to each employer in the claimant's recent employment history. The notice of claim filed informs the employer that the employer's experience rating account will be charged for benefits paid to the former employee. Employers must communicate to the department those instances where they can justify that the employee's benefits should not be charged to their experience rating account because the employee quit, was dismissed because of misconduct, or remains a part-time employee. Employers are required to complete and return the notice of claim filed with supporting documentation for this purpose. Staff in the Benefit Charge Unit review returned notices and determine whether a benefit non-charge is warranted based on the information provided by the employer.

Condition

We reviewed a sample of 60 from a population of 66,470 benefit non-charges granted to employers by the department's Benefit Charge Unit to determine compliance with statutory noncharging provisions. We found that the department was unable to provide supporting documentation for 10 of 60 benefit non-charges tested (17%).

Criteria

Under Sections 50-7-303 and 50-7-403(d)(1)(B), *Tennessee Code Annotated*, no employer's account will be charged for benefits paid to an employee who voluntarily quit without good cause attributable to the employer; was discharged for misconduct connected with his or her work; or maintained part-time status with the employer. The employer must establish that fact by submitting information to the department within 15 days of the mailing date of the notice of claim filed.

The U.S. Department of Labor ET [Employment and Training] Handbook No. 407, "Tax Performance System" specifies, "The State should have methods that benefit charging information (including but not limited to the decision to charge or non-charge . . .) is accurately recorded and that the source information is readily available for examination."

Cause

Based on our discussions with department management, during our audit period, the department lacked an adequate system to store the large volume of Benefit Charge Unit documentation, making locating specific records in hard-copy archives time-consuming and cumbersome. Since the end of our audit period, the department has implemented a digital imaging system for recording and storing benefit charge documentation.

Management further explained that they were aware of this issue before we brought it to their attention. The U.S. Department of Labor requires state agencies to conduct internal Tax Performance System reviews annually to evaluate the accuracy and timeliness of employer accounts operations. The Director of Employer Accounts provided us with the 2014 Tax Performance System report dated May 31, 2015, in which the auditor observed a large backlog of benefit charge documents, some dating back to 2013, that had not yet been microfilmed or otherwise digitized. Based on this report, the Employment Security Division Administrator incorporated the Benefit Charge Unit into the department's existing digital imaging project.

Effect

Without an effective audit trail in place, management cannot ensure that all benefit non-charges were granted in accordance with Sections 50-7-303 and 50-7-403(d)(1)(B), *Tennessee Code Annotated*. This deficiency increases the risk that employer experience ratings and premiums will not be correctly calculated.

Recommendation

The Employment Security Division Administrator should continue her efforts to ensure that benefit charge documentation is adequately stored and readily available for examination.

Management's Comment

We concur.

As noted in the finding, the benefit charge documentation had previously been stored in hard-copy archives. Digital imaging and storing of these records electronically was underway prior to the request for the sixty sampled benefit non-charges.

Management will continue efforts to digitize and store this documentation, which will allow the documentation to be readily available for examination.

Finding Number	2015-055
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; ES-24646-13-55-A-47; TA-22684-12-55-A-47; TA-24370-13-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2014-043

The Employment Security Division corrected previously identified deficiencies in the state employee and deceased individual cross-matches; however, staff continued to not identify ineligible payments to state inmates and unverified individuals

Background

The Employment Security Division in the Department of Labor and Workforce Development is charged with the administration of the Unemployment Insurance (UI) program and is responsible for determining eligibility and disqualification provisions, as required by Tennessee Employment Security laws and regulations. Division staff, in coordination with the department's Information Technology Division, perform data cross-matches by comparing data in the UI benefits information system to data obtained from third parties. Cross-matches of data are intended to provide independent verification of the information provided by claimants. For example, Employment Security Division staff compare UI benefit recipients to state payroll records to ensure that active state employees are not receiving UI benefits. Division staff also perform other cross-matches, which include comparing UI benefit recipients with the following data: deceased individuals (vital statistics); new hires for Tennessee and national employers; incarcerated individuals; and individuals' identity information (name, social security number, or date of birth) with the Social Security Administration. Once they identify possible ineligible recipients, staff must then further investigate the cross-match results to determine if the benefit recipients are ineligible. For recipients found to be ineligible, staff stop any future benefit payments and establish overpayments.

Division staff use cross-matches as primary controls to detect potential overpayments due to fraud or errors. In order for staff to use the cross-matches as an effective control, the cross-matches must be programmed correctly, reviewed properly, and acted on timely to determine if an overpayment has occurred or if no further action is required.

In the 2012, 2013, and 2014 *Single Audit Report*, we noted deficiencies with the division's cross-matches. Our findings reported that the division's cross-matches had not identified individuals receiving UI benefits who were simultaneously employed by the state, deceased, or incarcerated. We also noted that the cross-match to validate individuals' identities through the Social Security Administration was not always effective, resulting in payments to unverified individuals. Department management concurred with the deficiencies noted in the 2012 *Single Audit Report* and concurred in part with the weaknesses noted in the 2013 and 2014 *Single Audit Report*. Specifically, for the 2013 and 2014 *Single Audit Report*, department management did not concur that all of those individuals identified on their cross-match were necessarily ineligible, since they had not investigated those individuals' claims. We responded that at the time of our audit, management did not provide documentation to support the individuals' eligibility, despite our requests for such documentation.

Condition

In order to determine if the department's cross-matches and identity verification process were effective, we performed our own cross-matches and analytical procedures by comparing the population of UI benefit recipients to populations of state employees, deceased individuals, and state inmates. Although the division had corrected the deficiencies in their state employee and deceased individual cross-matches noted in prior audits, we again found that the department's state inmate cross-match was not functioning properly. In addition, when we performed a query of the department's information system for individuals whose identities the department had been unable to verify through the cross-match with the Social Security Administration during the audit period July 1, 2014, through June 30, 2015, we again found that the division subsequently paid benefits to some claimants whose identities were never verified.

State Inmates

As stated in the 2013 and 2014 *Single Audit Report*, we found that the division's state inmate cross-match was not sufficiently designed to include all incarcerated individuals. Our cross-match detected 13 instances where the department appeared to pay UI benefits to state inmates while they were incarcerated; the division's cross-match did not identify these **potential overpayments**,[50] which totaled $10,879. Specifically, we found that division staff did not

- detect nine potential state inmates who received UI benefits throughout the audit period; and
- properly follow up cross-match results on four potential state inmates to determine their eligibility and, if necessary, stop further benefit payments and establish an overpayment.

Identity Verification

As stated in the 2012, 2013, and 2014 *Single Audit Report*, we found that the division's identity verification procedures were not always effective. Our cross-match identified 12 individuals who received UI benefits even though division staff had not verified the individuals' identities

[50] Cross-match results represent possible benefit overpayments. The department must fully investigate each cross-match result and, if the individual is determined to indeed be ineligible for benefits, establish an overpayment.

through the Social Security Administration as required. These 12 individuals included 4 whom the division had flagged because staff had been unable to verify identities through the cross-match with the Social Security Administration during our audit period. These 4 individuals did not receive any UI benefit payments during our audit period ending June 30, 2015, but have received benefits during the current fiscal year covering July 1, 2015, through June 30, 2016. Based on the analytical procedures performed, we determined that the **potential overpayments** totaled $10,243—$2,761 for fiscal year 2015 and $7,482 for fiscal year 2016.

Furthermore, we determined that two other individuals received benefits (for nine weeks and for two weeks) before division staff verified their identities. Since division staff had verified these individuals' identities before we commenced testwork, we will not categorize benefits paid as overpayments, even though the department paid the benefits before staff made all eligibility determinations.

Criteria

The department is responsible for determining eligibility and disqualification provisions of individuals according to Tennessee Employment Security laws and regulations.

Title 9, *Code of Federal Regulations* (CFR), Section 97.20(a) states,

> A state must expand [*sic*] and account for grant funds in accordance with the State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to . . . (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

29 CFR 97.300 states,

> The auditee shall . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

State Inmates

Section 50-7-302(a)(4)(F), *Tennessee Code Annotated*, states,

> A claimant shall be considered ineligible for benefits if the claimant is incarcerated four (4) or more days in any week for which unemployment benefits are being claimed.

Identity Verification

Section 4-58-103(a), *Tennessee Code Annotated*, states,

> Except where prohibited by federal law, every state governmental entity and local health department shall verify that each applicant eighteen (18) years of age or older, who applies for a federal, state or local public benefit from the entity or local health department, is a United States citizen or lawfully present in the United States in the manner provided in this chapter.

Section 1137(a)(1) of the Social Security Act states,

> [T]he State shall require, as a condition of eligibility for benefits . . . that each applicant for or recipient of benefits under that program furnish to the State his social security account number (or numbers, if he has more than one such number), and the State shall utilize such account numbers in the administration of that program so as to enable the association of the records pertaining to the applicant or recipient with his account number.

Cause

The Employment Security Division's state inmate cross-match was ineffective due to continuing flaws in program logic and staff's failure to follow up on cross-match results and issue timely agency decisions. Based on discussion with division management, the department has had a difficult time obtaining the needed data from the state's Department of Correction. Department management stated that its planned corrective action of the identity verification issue is contingent upon implementation of its new UI system scheduled for 2016.

Effect

Until management focuses sufficient effort to correct cross-match program logic—thus generating results effective for identifying ineligible individuals—the department will continue to make UI benefit overpayments, including to state inmates. Additionally, when the department does not properly verify the identity of all claimants, the risk increases that UI benefits will be paid to ineligible individuals, including those who may have committed identity theft or are in the country illegally.

Potential Ineligible Benefit Payments

Based on our testwork noted above, we identified the potential UI benefits paid to ineligible individuals listed in the table below.

Table 1
Potential Benefits Paid to Ineligible Individuals

Category (# of Match Results Requiring Follow-up)	State UI Trust Fund	Federal Funds[51]	Total Potential Ineligible Payments
Incarcerated (13)	$10,879	-	$10,879
Identity Verification (12)	$10,243	-	$10,243
Total (25)	**$21,122**	-	**$21,122**

We distributed our state inmate cross-match results to department management on December 11, 2015. As of January 7, 2016, however, we had not received a response regarding whether or not management agreed that the cross-match results represented actual overpayments.[52] In the absence of this information, we consider the entire $21,122 to be state questioned costs.[53]

Recommendation

The Commissioner of the Department of Labor and Workforce Development and the Employment Security Administrator should ensure that the cross-matches are properly designed to ensure UI benefits are only issued to eligible individuals. Additionally, management should work with the Department of Correction to determine the reliability, completeness, and accuracy of the third-party agency's cross-match data and whether the cross-match provides effective controls to identify when the Employment Security Division issues benefit payments to potentially ineligible individuals.

Division management should ensure policies and procedures are in place to conduct proper reviews of the cross-match results, including the **potential overpayments** we noted above. Furthermore, management should ensure staff perform prompt follow-up investigations, issue agency decisions, and establish accurate overpayments when necessary.

Division management should also implement procedures to ensure that no individuals receive benefits before their identities are verified.

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[51] Federal payments—which would result in federal questioned costs—involve federal employees, ex-service members, and extended and emergency benefit recipients. The individuals with potential overpayments that we identified did not fall into any of these categories.

[52] Management did respond to our identity verification cross-match results.

[53] To complete our state inmate cross-match, we received a data file from the Department of Correction and identified inmates who appeared to be incarcerated while receiving benefits. In the past, however, we have found that the Department of Correction's data file does not always accurately reflect inmate movements and status changes. In order to compensate for this weakness, we asked Correction staff to verify whether cross-matched individuals were actually incarcerated for at least four days out of each week that they received benefits. In our finding, we only included those inmates verified by Correction staff. Nonetheless, upon further investigation, Department of Labor and Workforce Development staff occasionally identify a few inmates who were not incarcerated during their claim week after all and who were therefore eligible to receive benefits. For example, management responded to the prior finding as follows: "*The department did review the list of incarcerated claimants provided by the auditors. Eight (8) of the 44 noted cases were not incarcerated during the times listed. For the remaining 36 noted cases, the department has established $63,892.00 in overpayments.*"

Management's Comment

We concur in part.

Ineligible Payments to State Inmates:

Of the 13 claimants identified by the audit, department staff investigated all 13 instances and resulted in the following:

- The nine claimants who were not detected by the department's cross-match now have been investigated. Overpayments totaling $7,472 have been established for eight of the claimants. One claimant was determined not to be overpaid.
- The four claimants who needed follow up from the cross-match results have also been investigated. One (1) instance was originally not addressed by the department, but has now been reviewed and an overpayment has been established. The final three (3) instances were investigated and determined initially not to be overpaid. But further investigation was conducted, and the instances were deemed overpaid. Overpayments totaling $2,084.00 have been established for these four claimants.

Identity Verification:

Of the 12 claimants identified by the audit:

- One claimant has subsequently provided proof of identification.
- Eleven claimants have not provided proof of identification. Overpayments totaling $11,682 have been established for these 11 claimants.

Of the 11 claimants, seven claims were employer filed partials that failed to pass the identity verification process through the Social Security Administration. Each of these claims was backdated, which reduced the amount of time the department had to request proof of identification prior to the claim being paid. These seven claims were stopped, once the claimant failed to provide proof of identification. To help prevent this in the future, we have reduced the number of days an employer may go back and file a partial claim. We have also implemented a procedure to notify BPC as soon as this occurs, so that an overpayment may be established.

We have also updated our operations manual with instructions for dealing with claims that require proof of identification and will reinforce our training of new staff.

Finding Number	2015-056
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-24646-13-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; UI-26421-14-60-A-47; UI-26562-15-55-A-47; UI-27133-15-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

On the ETA 2112 report for the period ending June 30, 2015, the Department of Labor and Workforce Development, in coordination with the Department of Finance and Administration, did not follow U.S. Department of Labor reporting instructions, resulting in misstatements of $2,743,603

Background

For the Unemployment Insurance (UI) program, the Accounting Manager with the Department of Finance and Administration prepares[54] the Employment and Training Administration (ETA)[55] 2112 report. Also known as the *UI Financial Transaction Summary*, this report consists of a monthly summary of transactions accounting for all funds received in, passed through, or paid out of the State UI Trust Fund. Tennessee's report shows the ending balances for three separate account categories (the clearing account, the unemployment trust fund account, and the benefit payment account) and the line items composing those balances.

The Department of Finance and Administration's Director of Fiscal Services performs a review of the ETA 2112 report prior to submission to the U.S. Department of Labor.

Condition

The ETA 2112 report submitted by fiscal staff for the period ending June 30, 2015, was not accurate. Based on our testwork and review of supporting documentation, we determined that fiscal staff did not follow U.S. Department of Labor instructions when reporting 6 of 46 line items tested (13%), resulting in misstatements totaling $2,743,603. See the table below for details.

[54] Per executive order, the Department of Labor and Workforce Development has an agreement with the Department of Finance and Administration that the former's financial accounting and reporting functions—including completion of federal reporting—will be managed and operated by Department of Finance and Administration staff.
[55] The ETA is part of the U.S. Department of Labor and administers the Unemployment Insurance program on the federal level.

Table 1
ETA 2112 Reporting Errors

Line No.	Description	Amount Reported	Correct Amount	Difference
19	Reimbursements From Local Govt./Indian Tribes	$106,472	$543,085	$436,613
20	Reimbursements From State Hospitals and Higher Ed.	543,085	106,472	(436,613)
33	Reimbursable Benefits Paid to Local Govt./Indian Tribes	0	679,276	679,276
34	Reimbursable Benefits Paid to State Hospitals and Higher Ed.	0	96,796	96,796
35	Reimbursable Benefits Paid to Nonprofits	0	580,603	580,603
50	Withholding Tax Sent to the IRS*	0	1,386,928	1,386,928
	Totals:	**$649,557**	**$3,393,160**	**$2,743,603**

*Internal Revenue Service.

Despite the misstatements in the individual line totals, fiscal staff correctly reported the ending balances of the three account categories.

In addition to noncompliance, the existence of line item reporting errors illuminates deficiencies in fiscal staff's process for reviewing the ETA 2112 report.

<u>Criteria</u>

When preparing the ETA 2112 report, the department must follow guidance established in the U.S. Department of Labor's UI Reports Handbook No. 401. We list Handbook No. 401 instructions for relevant line items below.

Table 2
Line-by-Line Reporting Instructions

Line No.	Description	UI Reports Handbook No. 401 Reporting Instructions
19	Reimbursements From Local Govt./Indian Tribes	Enter the amount received as reimbursement for benefit payments made to former employees of local governments and political subdivisions including those to former employees of Indian tribes.
20	Reimbursements From State Hospitals and Higher Ed.	Enter the amount received as reimbursement for benefit payments made to former employees of state governments, including state hospitals and state institutions of higher education.
33	Reimbursable Benefits Paid to Local Govt./Indian Tribes	Enter the net amount of benefits paid which were attributable to local governments and political subdivisions subject to reimbursement.

34	Reimbursable Benefits Paid to State Hospitals and Higher Ed.	Enter the net amount of benefits paid former employees of state government including state hospitals and state institutions of higher learning subject to reimbursement.
35	Reimbursable Benefits Paid to Nonprofits	Enter the net amount of benefits paid former employees of reimbursing nonprofit organizations.
50	Withholding Tax Sent to the IRS	Enter the amount withheld from benefits sent to the IRS for federal income tax liabilities.

Regarding internal controls, Section OV2.14 of the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) states, "Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system."

Cause

According to the Accounting Manager, she misunderstood the reporting instructions for four of the line items containing errors (33, 34, 35, and 50). She said that for the remaining two items (19 and 20), she made a clerical mistake by entering the amounts on the wrong line. The Director of Fiscal Services added that his review focused on the mathematical accuracy of the three account category ending balances, not on the line-by-line reporting instructions.

Effect

Handbook No. 401 describes the purpose of the ETA 2112 report as follows: "[I]t reflects specific areas where adjustments are indicated to determine the adequacy of resources available for regular unemployment benefit payments. Data from this form are also used with data from other statistical reports to study trends in financial aspects of the UI program and as a basis for solvency studies."

Therefore, when state fiscal staff report inaccurate amounts, the U.S. Department of Labor suffers an impaired ability to monitor, compare, and analyze specific revenue and expenditure categories.

Recommendation

1. The Department of Finance and Administration should ensure that fiscal staff have the proper training to prepare the ETA 2112 reports and that an adequate review of these reports, including review and sign off by Department of Labor and Workforce Development management, is completed prior to submitting the reports.
2. Fiscal staff should properly report amounts in the accounting records in accordance with the reporting instructions.
3. As business partners, it is the responsibility of both the Department of Finance and Administration and the Department of Labor and Workforce Development to ensure a mutual exchange of accounting, financial, and program information that will result in proper federal financial reporting.

Management's Comment

Department of Labor and Workforce Development

We concur in part.

We concur with the auditor's assertion that amounts on the ETA 2112 were incorrectly reported. We do not agree with the auditor's recommendation that Department of Labor and Workforce Development's program staff should review fiscal reports. The fiscal staff have the fiscal knowledge to handle the fiscal reports.

Department of Finance and Administration

We concur. The Department of Finance and Administration (F&A) fiscal staff has implemented additional controls to ensure errors are detected and reconciliations occur prior to the submittal of the ETA 2112 report. Effective with the ETA 2112 report filed for November 2015 a full line by line review of the ETA 2112 is now being completed prior to final submission of the report. The importance of continued training on the preparation of this report, as well as all federal reporting, will continue as an F&A priority. In addition, F&A will continue its efforts to help ensure that the operation and management of the Department of Labor and Workforce Development's financial reporting is completed in a collaborative fashion, promoting open communications and providing for desired review opportunities.

Finding Number	2015-057
CFDA Number	17.258, 17.259, and 17.278
Program Name	Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	AA-21423-11-55-A-47, DI-22464-11-75-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, AA-26807-15-55-A-47
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	2014-050

While the department corrected three problems noted in the prior audit, participant data for the Workforce Investment Act's annual performance report still did not fully comply with reporting requirements

Background

The department's Workforce Services Division administers the Workforce Investment Act (WIA) cluster of programs through 13 subrecipients, or Local Workforce Investment Areas (LWIAs). Each LWIA designs and manages training and employment programs that serve adult workers and low-income youth in their area. LWIA staff use the department's Virtual OneStop (VOS) system to record participants' activities, progress, and outcomes.

The department must submit a WIA annual performance report that includes narrative information and a series of common measures for participants who have exited the programs[56] to the U.S. Department of Labor's Employment and Training Administration. To support the information in the annual report, the department also submits a WIA Standardized Reporting Data (WIASRD) file, which is an extract of participant data from VOS. In order to assure the Employment and Training Administration of the accuracy of the WIASRD file, the department must compare key data elements reported on the WIASRD file to source documentation in VOS and the participants' files.

According to the U.S. Department of Labor's Training and Employment Guidance Letter (TEGL) No. 6-14, "Program Year (PY) 2013/Fiscal Year (FY) 2014 Data Validation and Performance Reporting Requirements and Associated Timelines," the department is required to submit the results of its data element validation to the Employment and Training Administration "by February 1st following the due date of the WIA annual narrative for the program year being submitted." Based on the deadlines in TEGL 6-14, the department performed its data element

[56] The U.S. Department of Labor's Training and Employment Guidance Letter (TEGL) No. 17-05 lists three common measures for programs serving adults—entered employment, employment retention, and average earnings—and three common measures for programs serving youth—placement in employment or education, attainment of a degree or certificate, and literacy and numeracy gains.

validation for the program year 2013[57] WIASRD file in January 2015 and submitted its program year 2014 WIASRD file in August 2015. (As of the end of our audit fieldwork, the department had not completed its data element validation for the program year 2014 WIASRD file.)

Condition

As noted in the past three audits, management of both the department and the LWIAs did not comply with TEGL No. 17-05, "Common Measures Policy for Employment and Training Administration's (ETA) Performance Accountability System and Related Performance Issues." Management concurred with the fiscal year 2012 finding, concurred in part with the fiscal year 2013 finding, and did not concur with the fiscal year 2014 finding. Although they did not concur with the prior finding, management corrected the conditions involving 1) LWIA staff incorrectly reporting that participants had obtained degrees or occupational skills certifications, 2) inconsistent information between the WIASRD file and the computer system, and 3) uncorrected errors from the previous audit. Management did not correct prior finding conditions related to exiting participants and the accuracy of other data elements on the WIASRD file, as discussed below.

For our current performance reporting testwork, we selected a nonstatistical, random sample of 60 participants[58] from a total population of 15,808 participants who received assistance from staff in the local areas[59] and who either exited the program during our audit period or were still listed as active participants on the program year 2014 WIASRD file. For 12 of 60 participants tested (20%), LWIA staff either did not exit participants within the required timeframe or did not exit them at all.

Furthermore, the department's most recent data element validation indicates that the WIASRD files contain other data that is inaccurate or that cannot be supported by the participants' records. Based on a review of the data element validation, errors on the program year 2013 WIASRD file exceeded 5% for 26 of 237 data elements tested (11%). Given the errors noted in the program year 2013 WIASRD file, we reviewed the results of the program year 2012 data element validation. Only 20 of the 26 data elements identified as having high error rates during the review of the program year 2013 WIASRD file were included in the data element validation sample for the program year 2012 file. Based on our comparison of the two years' validation results, we found that the error rates had increased for 9 of the 20 applicable data elements with error rates in excess of 5% on the program year 2013 file.

Criteria

TEGL 17-05 states, "The term program exit means a participant has not received a service funded by the program or funded by a partner program for 90 consecutive calendar days, and is

[57] Program years extend from July to June of the following year (e.g., program year 2014 began on July 1, 2014, and ended on June 30, 2015).
[58] In order to select our testwork sample, we filtered the WIASRD file by LWIA. We randomly selected participants from five LWIAs, which we selected based on the local areas that appeared in our random sample of expenditures and based on our assessment of the risks associated with each local area.
[59] Only participants who are assisted by staff in the local areas are included in the calculation of the common measures.

not scheduled for future services." A participant should be exited from the program "[o]nce a participant has not received any services funded by the program or a partner for 90 consecutive calendar days, has no gap in service, and is not scheduled for future services."

In its September 2014 comprehensive review report, the U.S. Department of Labor identified "high error rates" for data element validation as those exceeding 5%.

Cause

Based on our review of the participants' records and discussions with personnel at the department and in the local areas, LWIA staff did not properly exit participants for various reasons. In some instances, case managers were periodically attempting to contact the participants (e.g., confirming their employment status or referring them to workshops) and might not have understood that the participants would not be reported as having exited the program until all program activities were closed. In other cases, however, we were unable to identify why the participants had not been exited after they completed training, entered employment, or otherwise ceased receiving services. LWIA management and staff agreed with our assessment that they did not properly exit participants.

The Workforce Services Division Assistant Administrator who is responsible for performance reporting stated that it would be extremely difficult to ensure that all data elements had error rates of less than 5%, but did not otherwise provide an explanation for why the error rates for some data validation elements exceeded the threshold established by the U.S. Department of Labor.

Effect

When LWIA staff do not promptly and accurately update participant records, the department cannot correctly calculate the common measures or report participant data on the WIASRD file. Reporting data incorrectly or underreporting key performance measures (in cases where participants with successful program outcomes are omitted from the common measure calculations) may result in the U.S. Department of Labor imposing sanctions or other financial penalties.

Recommendation

Workforce Services Division management should ensure that LWIA staff have adequate training and that they report accurate and up-to-date information in VOS. Additionally, division management should continue efforts to reduce the error rates for the WIASRD file data elements to below the 5% federal threshold.

Management's Comment

We do not concur.

As part of resolving the prior audit finding, the department has submitted information to the U.S. Department of Labor (US DOL) on December 21, 2015. As of February 5, 2016, the department has not received an initial determination from the US DOL.

The auditors continue to assert their interpretation of the WIA requirements for the participant exit date. We do not agree with their interpretation. In addition, we do not concur with the 5% threshold asserted in the finding, as nowhere in federal law or guidance does it require the state to meet this goal. Furthermore, and for the second year in a row, the auditors fail to use the correct reports and outcomes for the period under audit. The department's deadline to report the data element validation results for program year 2014 to the US DOL's Employment and Training Administration is February 29, 2016. As such, the auditors are not able to examine the applicable data element validation results.

Auditor's Comment

Management's statement that "[a]s a part of resolving the prior audit finding, the department has submitted information to the US Department of Labor" does not address the condition presented above. Furthermore, we have reported this condition for the past three audits, and the most recent prior audit finding was released on March 24, 2015. It is unclear why management waited until December 21, 2015, to seek clarification from the U.S. DOL.

Although management states that it does not agree with the audit assessment, it did not provide an explanation at the time of our audit (or in previous audits) as to how our "interpretation" was incorrect. Additionally, staff in the local areas did not identify any misunderstanding of the WIA requirements for participant exits when we were conducting our testwork.

As stated in the finding, the U.S. DOL's 2014 comprehensive review report identified 5% as the threshold over which data element error rates are considered unacceptably high.

Finally, management made two contradictory assertions: first, that the auditors did not "use the correct reports and outcomes for the period under audit" and, second, that "the auditors are not able to examine the applicable data element validation results" since the deadline for reporting these results is February 29, 2016. Therefore, it is unclear what information, if any, management believes that we should have examined during our audit based on these contradictory statements. Given the deadlines for submitting the data element validation results and the annual WIASRD files, however, we examined the most current reports and outcomes available at the time of our audit.

Finding Number	2015-058
CFDA Number	17.207, 17.258, 17.259, 17.278, 17.801, and 17.804
Program Name	Employment Service Cluster Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-26046-14-55-A-47, ES-24646-13-55-A-47, ES-23025-12-55-A-47, DV-26574-15-55-5-47, DV-19651-10-55-5-47, DI-22464-11-75-A-47, AA-21423-11-55-A-47, DI-22464-11-75-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, AA-26807-15-55-A-47
Federal Award Year	2011 through 2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Labor and Workforce Development did not provide adequate internal controls in one area

Condition, Criteria, Cause, Effect

The department did not design and monitor internal controls in one specific area related to a single department system. We observed one condition in violation of state policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or errors.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the department with detailed information regarding the specific condition we identified, as well as our recommendations for improvement.

Recommendation

Management should ensure that this condition is remedied by the prompt development and consistent implementation of internal controls. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur in part.

Subsequent to the end of the audit period, management has established some additional monthly procedures, which will assist to mitigate the risk to the single department system. Management is also evaluating whether additional procedures are needed to address the issue noted by the auditors.

Finding Number	2015-059
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A120043, V002A130043, V002A140043
Federal Award Year	2012 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Procurement and Suspension and Debarment Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	2014-053

Despite making improvements, the department still had not fully complied with monitoring requirements; additionally, the department failed to verify that subrecipients were not suspended or debarred

Condition

The Department of Labor and Workforce Development's Adult Education Division administers the Adult Education – Basic Grants to States federal grant program through 45 local area organizations that serve as program subrecipients. The organizations received approximately $14.7 million in federal funding during fiscal year 2015. The Adult Education Division is responsible for performing the subrecipient monitoring for the program.

In the 2014 State of Tennessee *Single Audit Report*, we included a finding that the Adult Education Division did not complete a subrecipient monitoring plan or obtain subrecipients' audit reports. We also found that the department did not include all of the required compliance requirements in its monitoring activities. Management concurred with the prior finding.

For the current audit, we determined that while the division prepared a monitoring plan that referenced all compliance requirements, it did not substantially complete and monitor its subrecipients based on the approved plan. Furthermore, we again noted that the division did not obtain and review subrecipients' audit reports.

Additionally, we identified the following new conditions:

- The Adult Education Division did not have a method to ensure subrecipients had obtained audits.
- As part of their pre-award checklist, division staff did not include review of the System for Award Management (SAM)[60] to verify that subrecipients were not suspended, debarred, or otherwise excluded from entering into covered transactions.[61]

[60] SAM is an official U.S. government system that combines federal procurement systems and the Catalog of Federal Domestic Assistance into one system. SAM allows users to view exclusion information of registered entities at https://www.sam.gov/.

Criteria

According to Office of Management and Budget Circular A-133, pass-through entities such as the department are required to monitor subrecipients' activities to ensure that federal awards are used for authorized purposes and that performance goals are achieved. They must also ensure that subrecipients expending $500,000 or more in federal awards during their fiscal year have obtained audits.

State monitoring requirements are set forth in Central Procurement Office Policy 2013-007, which applies "to all State agencies that award State or federal funds." Policy 2013-007 also states, "Any changes to the agency monitoring plan following approval by the [Central Procurement Office] shall be documented by the agency and maintained with their approved plan. Changes to the population of contracts to be monitored should be well documented with an explanation accompanying the changes."

The Adult Education subrecipient contracts state,

> The Grantee [(subrecipient)] shall prepare and submit, within nine (9) months after the close of the reporting period, an annual report of its activities funded under this Grant Contract to the commissioner or head of the Granting agency, the Tennessee Comptroller of the Treasury, and the Commissioner of Finance and Administration. The annual report for any Grantee that receives five hundred thousand dollars ($500,000) or more in aggregate federal and state funding for all its programs shall include audited financial statements. . . . Any such audit shall be performed in accordance with generally accepted government auditing standards, the provisions of OMB Circular A-133, if applicable, and the Audit Manual for Governmental Units and Recipients of Grant Funds published by the Tennessee Comptroller of the Treasury.

Title 2, CFR, Section 180.320 establishes that the agency is "responsible for determining whether any of [its] principals of [its] covered transactions is excluded or disqualified from participating in the transaction." Title 34, CFR, Section 80.20 and Title 2, CFR, Section 200.303 require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Cause

The Adult Education Division created a Director of Monitoring position and filled the position in December 2014; however, this employee separated from the department in June 2015. Prior to his separation, the Director of Monitoring only conducted 3 of the 15 monitoring site visits listed

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[61] According to Part 3 of the 2015 Office of Management and Budget Circular A-133 Compliance Supplement, "'[c]overed transactions' include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR [*Code of Federal Regulations*] section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215."

in the approved monitoring plan (20%). Subsequent to the audit period, division staff prepared reports for these monitoring site visits and submitted them to the applicable subrecipients for corrective action.

With assistance from the Director of Internal Audit, the Director of Fiscal received and only reviewed summary information in the form of a "Notification of Audit Release" and a "Summary of Audit Findings" prepared by the Local Government Audit Division of the Comptroller's Office. Since none of these summaries indicated findings related to the Adult Education program, the Director of Fiscal did not conduct a further review of the audit reports. According to the Director of Fiscal, the division relies solely on subrecipients to ensure they obtain the appropriate audits since the division did not develop a method for tracking or ensuring this requirement was met.

In addition, the Director of Fiscal stated that the division assigns to the subrecipient responsibility for identifying suspended or debarred vendors and that she was not aware of SAM or any other method to verify subrecipients that were not suspended, debarred, or otherwise excluded from entering into covered transactions.

Effect

By not obtaining and reviewing audit reports, management cannot ensure subrecipients are adequately evaluated for preparation of the division's annual monitoring plan. When monitoring is not sufficiently completed in accordance with the approved plan, the department increases the risk that noncompliance, fraud, waste, and abuse could occur and not be detected and resolved appropriately and timely.

During the course of our testwork, we did not identify any suspended or debarred subrecipients; however, without adequate internal controls to verify subrecipients are not suspended or debarred as part of the pre-award process, the Adult Education Division increases the risk that subawards could be granted to entities that are suspended or debarred, thus causing the division to be ineligible to receive federal funds for subrecipients that have been suspended or debarred.

Recommendation

The Commissioner and the Adult Education Division Administrator should ensure that subrecipients required to obtain an audit are identified; should ensure that those audit reports are obtained and reviewed, including documentation of subrecipients where audits are not required; and should ensure that the division complies with its approved annual monitoring plan. The Commissioner and Adult Education Division Administrator should also implement policies and procedures as part of its pre-award checklist to verify and document that potential subrecipients are not suspended, debarred, or otherwise excluded from entering into covered transactions.

Management's Comment

We concur. The Adult Education Division drafted a Monitoring Guide that was approved in October 2014. Under that guide, the Division conducted three (3) monitoring visits, despite a personnel change in the Monitor position. The Division has submitted an updated Monitoring Guide that incorporates the recommendations from the most recent federal single audit report. Upon approval of this updated Monitoring Guide, the Division will resume monitoring activities and will be in full compliance with all monitoring requirements.

The Division is also in the process of developing a method for tracking the receipt and review of audit reports. This tracking method is expected to be in operation by the end of January 2016.

With regard to verification that subrecipients are not suspended or debarred, the Division will now, prior to the award of any contract, search the name of the potential grantee on the System for Award Management (SAM) to confirm that the entity has not been suspended or debarred. The Fiscal Division will include a field in their documentation to verify that this has been done as well.

Finding Number	2015-060
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A130043, V002A140043
Federal Award Year	2013 and 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking Subrecipient Monitoring
Questioned Costs	$55,626
Repeat Finding	2014-051

Although the department began requiring subrecipients to submit documentation for the reported match amount, staff failed to always ensure the sufficiency of that documentation and also sometimes reimbursed subrecipients for unallowable expenditures

Background

The Department of Labor and Workforce Development's Adult Education Division administers the Adult Education (AE) – Basic Grants to States federal grant program through 45 local area organizations that serve as program subrecipients. Subrecipients received approximately $14.7 million in federal funding during the fiscal year ended June 30, 2015. The department's subrecipients are expected to provide a 10% match on grant contracts to help meet the state's total match requirement of 25% for the federal grant, which is included on annual federal financial reports. Based on our analysis, subrecipients are expected to fund approximately $1.5 million per award through their match amounts.

The AE Division requires subrecipients to report and submit match amounts along with supporting documentation as part of their monthly expenditure reports.[62]

In the State of Tennessee's 2014 *Single Audit Report*, we identified noncompliance because the department's AE Division did not require subrecipients to submit supporting documentation for their reported match amounts. The prior finding also reported that even though the division required subrecipients to maintain documentation at their respective locations, the department's monitoring activities were not sufficient to ensure subrecipients' matches were based on allowable costs. As a result, no one was reviewing subrecipient documentation to ensure the in-kind costs were allowable under the grant. Management concurred with the prior finding and

[62] Prior to January 1, 2015, subrecipients submitted monthly invoices requesting reimbursement of expenditures and included a report of the match claimed for the month. On January 1, 2015, one subrecipient began operating on a cash advance basis instead of a reimbursement basis. As part of this change, the division created the Request for Drawdown of Funds and Monthly Expenditure Report for all subrecipients to use. The cash advance subrecipient submitted the Request for Drawdown of Funds during the month and the Monthly Expenditure Report at the end of the month, while the remaining subrecipients submitted both forms at the end of the month. The Monthly Expenditure Report includes subrecipients' match for the month.

stated that they began requiring subrecipients to submit documentation for reported match amounts as of July 1, 2014. In their six-month follow-up, management stated that the division had corrected the finding.

Condition

For the current audit, we determined that although the AE Division corrected the prior condition requiring subrecipients to submit documentation for the reported match amount, the majority of the documentation submitted was insufficient as noted below.

a. Our expenditure sample[63] testwork contained 24 subrecipient reimbursement requests with expenditures incurred on or after July 1, 2014. We found that 19 of the 24 related monthly expenditure reports (79%) included a reported match amount for which the subrecipient either did not have sufficient supporting documentation available or did not submit such documentation to the AE Division.[64] Based on our testwork and review of the documentation, we were unable to determine whether $43,522 of the $66,507 matching amounts reported (65%) were allowable based on the documentation submitted to the division by subrecipients. The $43,522 represents questioned costs for the Matching, Level of Effort, and Earmarking compliance requirement.

   While these costs are not paid with federal funds, the state records the costs to meet the federal matching requirement for each grant. In addition, we found that during fiscal year 2015, the AE Division still did not adequately perform subrecipient monitoring (see repeat finding 2015-059). Division personnel would, therefore, be less likely to identify deficiencies with subrecipient-reported match.

b. From our expenditure testwork, we found the following deficiencies that resulted in federal questioned costs of $10,079 for the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements:

   i. Four of 60 expenditure transactions (7%) included costs (both direct and indirect) that the AE Division reimbursed to the subrecipient even though supporting documentation was missing or incomplete.[65] This deficiency resulted in federal questioned costs of $8,902.

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[63] We obtained the total population of 3,733 Adult Education - Basic Grants to States expenditures, totaling $11,770,830 during the 2015 fiscal year, and selected a random, nonstatistical sample of 60 expenditures (totaling $434,012) from the population.

[64] For example, we identified insufficient documentation related to in-kind contribution leased space, consisting of: lack of market analysis or appraisals, as well as incomplete appraisals submitted (no dates, signatures, or addresses of locations or appraisals that were performed by facility staff instead of a realtor). In-kind contribution of volunteer service was insufficiently documented without a timesheet signed by the individual providing the service. Expenditures claimed as match were also insufficiently documented since they did not provide support to a direct connection with the AE program.

[65] For example, documentation for a car rental did not include the trip's purpose, which is necessary for us to determine whether the expense relates to the AE program.

ii. Related to resource sharing agreements,[66] 2 of 60 expenditure transactions (3%) contained unapproved costs. This deficiency resulted in federal questioned costs of $64.

iii. A subrecipient charged 1 of 60 expenditure transactions (2%) to the reserved portion of an award, where the activity was unallowable. (This activity involved general meetings and training, which did not contribute to the reserved designation's intent.) This deficiency resulted in federal questioned costs of $1,113.

The condition identified in Section b. above also led to $2,025 questioned costs for matching.[67]

Criteria

a. The Adult Education and Family Literacy Act (Title II of the Workforce Investment Act of 1998) requires that each state agency providing adult education and literacy services contribute a non-federal contribution (match) of at least 25%. The department passes along part of this requirement to its subrecipients participating in the federal program through the "program assurances" included in the subaward contracts that require subgrantees to provide a cash or in-kind match of 10% of their subawards from the state.

According to Title 34, *Code of Federal Regulations* (CFR), Section 80.24 and 2 CFR 200.306, for awards beginning on or after December 26, 2014, matching requirements may be satisfied through allowable costs incurred by the grantee or subgrantee or by the value of third-party in-kind contributions. In addition, 34 CFR 80.24 states,

> Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived. . . . Third party in-kind contributions count towards satisfying a cost sharing or matching requirement only where, if the party receiving the contributions were to pay for them, the payments would be allowable costs.

b.

i. According to Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," (and 2 CFR 200, Appendix VII for awards beginning on or after December 26, 2014),

> All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those

[66]For resource sharing expenditures, at the beginning of the fiscal year, the department and subrecipient enter into a memorandum of understanding that contains an approved budget by line item. These budgets allocate costs of shared resources of local workforce investment area career centers to various programs, including Adult Education.
[67]We determined that the state funded a portion of the unallowable expenditures and used those costs as part of its federal match: $1,781(i.) + 21(ii.) + 223(iii.) = $2,025.

costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.

The AE Division's subrecipient grant contracts state, "Should the Grantee [subrecipient] request reimbursement for indirect cost, the Grantee must submit to the State a copy of the indirect cost rate approved by the cognizant federal agency and the State."

According to Office of Management and Budget Circular A-87 (and 2 CFR 200.403 for awards beginning on or after December 26, 2014), "To be allowable under Federal awards, costs must. . . [b]e adequately documented."

ii. The contents of the approved memoranda of understanding for resource sharing agreements serve as the criteria for this condition.

iii. The federal grant award document establishes that a portion of the award is "reserved by Congress for 'integrated English literacy and civics education services to individuals who are immigrants and other limited English proficient populations.'"

2 CFR 200.303 requires non-federal entities to implement and maintain internal controls to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

<u>Cause</u>

a. According to the AE Director of Fiscal, when the division began requiring subrecipients to submit documentation to support their reported match on July 1, 2014, subrecipients were resistant to the change, and the type of documentation the subrecipients maintained was not consistent. The new Monthly Expenditure Report instituted in January 2015 created additional difficulties with obtaining documentation from subrecipients, who struggled to properly prepare the form and who needed payment quickly since they operate with small cash reserves. According to the Director of Fiscal, she may have approved match without documentation based solely on the subrecipient-provided information and then requested the documentation at a later date.

b.

i. The former AE Program Administrator, who would have been responsible for approving fiscal year 2015 subrecipient indirect cost plans, separated from the department in November 2014. The current Program Administrator and his staff could not locate any indirect cost approval documentation left by the former Program Administrator. For the remaining costs, division staff did not provide additional documentation when we requested it.

ii. The Director of Fiscal stated that during her review of the applicable invoices, she did not notice that the subrecipient charged expenditures to lines that the division had not approved in its memoranda of understanding for the resource sharing agreements. She stated that the goal of her review is primarily to ensure the subrecipient provides AE services at the location for which it is requesting reimbursement for resource sharing costs.

iii. The Director of Fiscal did not adequately review the subrecipient monthly expenditure report to ensure expenditure documentation reconciled to the appropriate award, and Fiscal Services staff incorrectly entered the expenditure in the accounting system according to the award number indicated on the report.

Effect

The department cannot be certain that costs included as non-federal contributions are allowable when the AE Division does not properly monitor the match reported by subrecipients. Without the subrecipient portion of match, the state would likely not meet federal match requirements and would not, therefore, be able to receive all available federal funds.

By not adequately reviewing monthly expenditure reports and not obtaining, maintaining, and requiring sufficient supporting documentation in order to detect or prevent errors, the division may not meet the AE program's federal match requirement and may also misreport expenditures on the federal financial reports, potentially reducing future federal funding.

Table 1
Known Questioned Costs

Condition	Matching	Allowable Costs	*Total*
a.	$ 43,522	$0	**$ 43,522**
b. i.	1,781	8,902	**10,683**
b. ii.	21	64	**85**
b. iii.	223	1,113	**1,336**
Total	**$ 45,547**	**$ 10,079**	**$ 55,626**

Recommendation

The Commissioner of the Department of Labor and Workforce Development and the Adult Education Division Administrator should ensure that division staff receive training to properly review subrecipient monthly expenditure reports and related documentation. This review should ensure that subrecipient expenditures are adequately supported as Adult Education program expenditures, that expenditures are charged to the appropriate award, and that match amounts claimed are fully supported by documentation and allowable. The Division Administrator should also ensure subrecipients receive additional training regarding proper documentation of expenditures for reimbursement and matching.

Management's Comment

We concur in part.

The Division of Adult Education acknowledges that there have been deficiencies in receiving, reviewing, and approving the subrecipient's matching documentation. Program year 2014-15 was extremely difficult implementing the matching review, due to extenuating circumstances as documented in the audit report. At the time of review, Adult Education staff felt the documentation was adequate for payment submission and was provided to the auditors. Regarding the incorrectly entered expenditure, a journal entry has been entered into the accounting system correcting the award or contract number.

We are requesting technical assistance from the United States Department of Education (USDOE) regarding what would be considered sufficient and acceptable documentation for the subrecipient's matching requirement and expenditures. Upon receiving guidance from USDOE and fully understanding what is required from our subrecipients, we will then provide this same technical assistance to them, so they can be prepared to submit complete and accurate documentation to Adult Education and be in compliance with federal regulations.

Finding Number	2015-061
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A120043
Federal Award Year	2012
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Equipment and Real Property Management Procurement and Suspension and Debarment Subrecipient Monitoring
Questioned Costs	$700,922
Repeat Finding	N/A

As a result of poor grant management and planning, former Adult Education Division management overrode established procurement controls to expend grant funds quickly before the grant expired

Background

The Department of Labor and Workforce Development's Adult Education (AE) Division administers the Adult Education – Basic Grants to States federal grant program through 45 local area organizations that serve as program subrecipients. The division awarded subrecipients approximately $14.7 million in federal funding during the fiscal year ended June 30, 2015. While Adult Education federal grant funds are available for 27 months, the division typically awards most of the funds to subrecipients in the first 12 months and then awards the remaining funds to subrecipients to cover critical needs after the initial 12 months. The critical needs contracts end at 24 months.

Criteria and Condition

Awarding of Grant Funds, Equipment Procurement Methodology, and Subrecipient Inventory Management

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government (Green Book),*

> Management should design control activities to achieve objectives and respond to risks. . . . Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system

The *Green Book* provides examples of control activities, including those related to "[p]hysical control over vulnerable assets." Regarding this topic, the *Green Book* states, "Management establishes physical control to secure and safeguard vulnerable assets. . . . Management periodically counts and compares such assets to control records."

In order to use federal funds remaining from the 2012 Adult Education federal grant (grant period from July 1, 2012, through **September 30, 2014**), former AE Division management and staff awarded grant contracts to six subrecipients in the amount of $945,565[68] on ***September 9, 2014***. This left subrecipients only 21 days to obligate the funds through vendor contracts or purchase orders before the grant was set to expire.

Based on our testwork, we determined that because former AE Division management had failed to sufficiently plan how to spend the grant award, management expedited a procurement arrangement to spend the grant funds. We did not find adequate evidence that the division conducted an appropriate needs analysis or had prepared an equipment replacement plan. Instead, the only evidence we found were emails from the former Director of Performance and Compliance to subrecipients requesting their equipment "wish list."

Subsequent to reviewing the wish lists, division staff provided subrecipients with lists of specific equipment, including sensitive[69] equipment, to purchase for themselves and other subrecipients, along with the names of vendors to use unless they found a vendor with a lower cost. Once the 6 subrecipients purchased the equipment on behalf of other subrecipients participating in the program, vendors direct-shipped the equipment to 35 of the remaining 39 subrecipients.

After the purchases were complete, the division reimbursed the 6 subrecipients approximately $873,517 ($700,922 federal funds and $172,595 state funds) and charged the costs to the grant. We discussed this condition with current division and subrecipient staff, who speculated that the intent of these purchases was to expend funds quickly before the end of the grant period by utilizing subrecipients who had enough local funds to purchase the equipment and wait for reimbursement from the state.

In addition to poor planning for grant award spending, we identified the following problems surrounding the AE Division's awarding of grant funds, equipment procurement methodology, and subrecipient inventory management:

Awarding of Grant Funds

Division management lacked sufficient documentation describing the process of awarding the six equipment purchase grant contracts to subrecipients, including the equipment needs analysis and equipment replacement plans.

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[68] The AE Division funded the grant contracts using $709,174 in federal funds and $236,391 in state funds.

[69] Sensitive equipment is defined as those items that are susceptible to theft and that may contain private and confidential information. Examples described by the division's asset policy include tape recorders/other sound devices, printers, computers, software, cameras, classroom/office furniture, or other types of equipment.

Equipment Procurement Methodology

According to Title 34, *Code of Federal Regulations* (CFR), Part 80.32 (2 CFR 200.313 for awards beginning on or after December 26, 2014), "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures."

In Tennessee, the Department of General Services' Central Procurement Office establishes procurement procedures. Central Procurement Office Policy 2013-007 states, "Competition is encouraged with all Grantee selections. If competition is not sought, the Grantor State Agency is required to justify the selection of the Grantee to the Central Procurement Office for approval on such forms as required by the Central Procurement Office."

The Central Procurement Office's *Procurement Procedures Manual* adds, "Competition should be involved in the procurement process to the maximum extent practicable, with the caveat that a non-competitive process (e.g., informal solicitations, emergency purchases, sole source, etc.) is sometimes necessary under the circumstances." Regarding emergency purchases, the manual states,

> Poor planning (e.g., failure to manage contract beginning dates or expiration dates) or the expiration of funds (e.g., expiration of federal funding for a project), however, do not constitute an emergency. These circumstances may require immediate action and may justify use of another non-competitive procurement method, but not an emergency purchase.

If the use of another non-competitive procurement method can be justified, that justification should be documented.

The manual describes the scope of work (service) as "a detailed description of what is required of the contracting party to satisfactorily perform what is required under the contract."

The AE Division's subrecipient grant contracts also address procurement methodology, stating,

> . . . procurement(s) shall be made on a competitive basis, including the use of competitive bidding procedures, where practical. The Grantee shall maintain documentation for the basis of each procurement. . . . In each instance where it is determined that use of a competitive procurement method is not practical, supporting documentation shall include a written justification for such decision and non-competitive procurement.

Furthermore, Office of Management and Budget Circular A-87 (2 CFR 200.403 for awards beginning on or after December 26, 2014), "Cost Principles for State, Local, and Indian Tribal Governments," establishes that "[t]o be allowable under Federal awards, costs must . . . [b]e necessary and reasonable for proper and efficient performance and administration of Federal awards."

Results of Testwork

1. AE Division staff could not provide either documentation that the equipment purchases were made on a competitive basis or written justification for non-competitive procurement. Division management and staff did not document their selection of specific vendors that they provided to subrecipients and did not ensure subrecipients complied with full open competition contract provisions in selecting the vendor used. Furthermore, we discovered that the scope of services included in the grant contracts did not reflect the division's intent for the use of awarded funds. We did not find that the records provided an adequate audit trail[70] of what actually occurred as a result of this procurement.
2. The AE Division could not provide any written policies or procedures that would authorize or guide division staff or their subrecipients to procure and distribute equipment purchases as described above.
3. We found that the division's poor planning and forecasting for the use of the federal grant award resulted in the apparent unnecessary purchase of equipment items (17 projectors with a $9,011 value) since those items were placed in storage for over a year instead of being placed into service. Division staff stated they were unaware that the items were placed in storage until we brought it to their attention.
4. We determined that the division staff also reimbursed the subrecipients for indirect costs ($20,725) without sufficient documentation to support those costs. The unsupported costs are federal questioned costs.

Subrecipient Inventory Management

The AE Division's Property Procurement and Accountability policy requires subrecipients to complete appropriate documentation for all equipment acquisitions. The policy specifies, "New acquisitions must be reported to TDLWD [Tennessee Department of Labor and Workforce Development] on the Property Record form. All new property should be clearly marked. New property listings must be submitted as soon as possible after tagging."

The division's subrecipient grant contracts additionally require "a perpetual inventory system for all equipment purchased with funds provided under" the contract and an "inventory control report" including the following:

- description of the equipment;
- manufacturer's serial number or other identification number, when applicable;
- consecutive inventory equipment tag identification;
- acquisition date, cost, and check number;
- fund source, state grant number, or other applicable fund source identification;

[70] The Merriam-Webster Dictionary defines audit trail as "a record of a sequence of events… from which a history may be reconstructed."

- percentage of state funds applied to the purchase;
- location within the grantee's operations where the equipment is used;
- condition of the property or disposition date if grantee no longer has possession;
- depreciation method, if applicable; and
- monthly depreciation amount, if applicable.

Results of Testwork

1. When we requested property acquisition and transfer forms from the Director of Performance and Compliance, he could not locate the forms within the division and subsequently had to request them from the subrecipients.
    a. Once the director obtained some of the forms, we reviewed them and found that the forms were incomplete. For example, none of the transfer forms included critical information such as a state property tag number.[71]
    b. One subrecipient purchased items, direct-shipped them to the division, and then shipped them to other subrecipients; neither the AE Division nor the subrecipient had transfer documentation for these items. Upon our request, the Director of Performance and Compliance reconciled this shipment by using the shipping documentation and subrecipient inventory lists to determine the current locations of the equipment. He was unable to locate 4 laptops,[72] 8 projectors, and 15 printers/scanners valued cumulatively at $12,441.
2. In addition to the deficiencies identified above, we reviewed the subrecipients' inventory records, which are submitted quarterly to the division. Subrecipients use an inventory format provided by the division that includes fields for information. We found, however, that subrecipients did not complete every available field. Missing information consisted of equipment acquisition date, condition, cost, contract number, and funding percentage.
3. It is also important to note that the AE Division still lacked sufficient subrecipient monitoring in order for staff to identify timely any problems that arose in equipment management (see repeat finding 2015-059).

<u>Cause</u>

<u>Awarding of Grant Funds, Equipment Procurement Methodology, and Subrecipient Inventory Management</u>

The division management and staff who were responsible for initiating the six subrecipient grant contracts are no longer employed with the Department of Labor and Workforce Development. We had to rely on information and documentation from management and staff hired subsequent to the awarding of contracts. Poor planning and forecasting of funds through the first 24 months

[71] State property tags provide unique identifiers for items purchased with state and/or federal funds.
[72] The calculated value of each missing laptop includes the cost of the warranty and Microsoft Office.

of the award resulted in excess funds available in the last three months of the award. With limited time to use the funds, former division management chose to bypass established policies and procedures instead of returning funds to the federal government.

Equipment Procurement Methodology

The list of vendors that former AE Division management provided included neither the prices for equipment items from any of the vendors nor a vendor selection for one of the items the subrecipients were instructed to purchase.

Subrecipient Inventory Management

The subrecipient that purchased equipment sent to the division stated that it did not prepare transfer documentation because the equipment was never physically in its possession; however, the entire purchase amount is identified in its accounting records. Division staff did not prepare transfer documentation either, when it shipped equipment it received from the original purchase to other subrecipients.

The AE Administrator stated that the division and subrecipients have gathered equipment inventory information where possible for older purchased items. He indicated that the consolidation of subrecipient equipment that occurred as part of the reduction in the number of subrecipients on July 1, 2013, resulted in lost information.

Effect

A lack of planning to expend grant funds in the first 24 months of the 27-month grant award forced management to circumvent established controls to spend funds quickly instead of losing the opportunity to expend the entire award. We believe the poor planning resulted in waste of federal and state funds. Management's lack of careful consideration of its fiscal responsibility to spend grant funds for necessary and justified purposes also increases the risk of fraud, waste, and abuse within the program. Furthermore, when management does not maintain sufficient documentation of the grant award process, does not clearly define the scope of services in the subrecipients' contracts, and does not maintain accurate inventory records, management has not demonstrated compliance with federal requirements, which could result in federal disallowances by the federal grantor.

Internal controls serve as a defense for safeguarding assets, as well as preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; and abuse. As a result of the conditions identified above, we have total questioned costs of $873,517 ($700,922 in federal funds and $172,595 in state funds) for the Adult Education program.

Recommendation

The Commissioner of the Department of Labor and Workforce Development and the Adult Education Division Administrator should assess the division's budget process to better plan for the use of Adult Education federal grant funds in order to ensure grant funds are used in the most efficient and effective manner. The Commissioner and Division Administrator should ensure division and subrecipient staff follow established policies and procedures for awarding grant funds, establishing grant contracts, completing procurements, and managing inventory. If subrecipients do not adequately maintain and regularly submit inventory records as required, the department should consider all remedies available to it to correct deficiencies identified.

Furthermore, the Division Administrator should immediately require a physical inventory count to locate all equipment purchases funded with Adult Education federal and state funds and ensure the equipment is used for program purposes as required.

Management’s Comment

We concur in part.

The Division of Adult Education (AE) concurs with the majority of the information in this finding, but disagrees with the reasoning and alleged facts found within this finding. While AE would like to present a response for the aforementioned disagreements; it would also like to present policy and procedures that it has implemented, in order to be compliant with any federal or state standards that were noted.

AE disputes that the sole purpose of the contracts were to dispense of funds before the end of the grant period. AE’s documentation shows the contracts were also intended to fulfill the requirements of the Workforce Innovation and Opportunity Act (WIOA) by equipping classrooms and teachers with technology to better serve participants.

It was also stated that AE did not abide by Central Procurement Office Policy 2013-007. AE, as a state entity, did not make the purchases; therefore, there was no need to follow the state procurement policy. All procurement occurred with the subrecipients; therefore, the subrecipient’s procurement policy would have been followed. AE informed the subrecipients that their procurement policies and procedures must be followed. Prior AE management emailed the subrecipients some guidance including state contractor information for smart boards and multi-function printers/scanners and state-wide contract information for computers and projectors. This email guidance also included a price range for other listed items. Lastly, the guidance specifically listed items to be purchased.

AE has implemented and initiated new policies concerning inventory transfer and surplus. Also, AE has submitted their annual subrecipient monitoring plan to the Central Procurement Office for review and approval; however, the Central Procurement Office has not approved the annual monitoring plan, as of the end of February 2016. AE’s subrecipient monitoring includes equipment.

Finding Number	2015-062
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

Management has not established and documented federally required policies or procedures to govern the department's Value Engineering program

Background

The Federal Highway Administration (FHWA) requires each state's Department of Transportation to establish a Value Engineering (VE) program and to ensure that a value engineering analysis is performed for all applicable projects. According to the FHWA website at https://www.fhwa.dot.gov/ve/ and Title 23, *Code of Federal Regulations*, Part 627, Section 3(e),

> Value Engineering is defined as a systematic process of review and analysis of a project, during the concept and design phases, by a multidiscipline team of persons not involved in the project, that is conducted to provide recommendations for:
>
> 1. providing the needed functions safely, reliably, efficiently, and at the lowest overall cost;
> 2. improving the value and quality of the project; and
> 3. reducing the time to complete the project.
>
> The successful application of the VE process can contribute measurable benefits to the quality of the surface transportation improvement projects and to the effective delivery of the overall Federal-Aid Highway Program.

According to Title 23, *United States Code*, Chapter 106(e), and 23 CFR 627, critical elements of the VE program include identifying a state Value Engineering Coordinator; establishing documented VE policies and procedures, including requirements to identify applicable projects and to verify that required VE analyses are completed on departmental and subrecipient projects; and establishing procedures to monitor, assess, and report on the performance of the VE program.

To ensure compliance with federal requirements, the Tennessee Department of Transportation designated a Value Engineering Coordinator to lead its VE program and be responsible for identifying projects that require a VE analysis and forming a multidiscipline team to conduct these analyses. Our audit objective was to determine whether the department's VE program management and staff

- developed required policies and procedures;
- documented their analyses conducted for applicable projects;
- evaluated the VE recommendations; and
- incorporated approved recommendations into the plans, specifications, and estimates for the project.

<u>Condition and Criteria</u>

Based on our inquiries with the Value Engineering Coordinator, we determined that the department has not developed and documented policies and procedures for the VE program, as required by "Value Engineering," Title 23, CFR, Part 627, Section 7(a)(1), which states the following:

> The STA [State Transportation Agency] shall establish and sustain a VE program under which VE analyses are identified, conducted and approved VE recommendations implemented on all applicable projects (as defined in §627.5). The STA's VE program shall . . . Establish and **document** [emphasis added] VE program policies and procedures that ensure the required VE analysis is conducted on all applicable projects.

<u>Cause</u>

According to the Value Engineering Coordinator, in prior years, the department had an understanding with FHWA that allowed the department to use federal requirements to manage the VE program in lieu of establishing its own policies and procedures; however, the Value Engineering Coordinator was not able to provide documentation of this agreement. The FHWA Area Engineer, who oversees the Tennessee Division, stated that the department should have documented policies and procedures for the VE program.

<u>Effect</u>

The absence of the federally required documented policies and procedures increases the risk that the department will not meet the VE program requirements.

<u>Recommendation</u>

The Commissioner should ensure that the department establishes the required policies and procedures over the Value Engineering process to enable the department to comply with federal law and effectively analyze applicable projects.

Management's Comment

We concur with the finding. TDOT does not have a documented policy regarding our Value Engineering program. The Department completes and distributes an annual Value Engineering report to the Federal Highway Administration (FHWA) summarizing the annual program and demonstrating compliance with Federal Value Engineering regulations found in 23 CFR Part 27. The Department has, historically, utilized the 23 CFR Part 27 as the de facto TDOT policy. The Department has never been advised by the Federal Highway Administration regarding a potential TDOT policy documentation deficiency. As such, we do not concur that the finding type described in the audit report should rise to the level of a "Significant Deficiency and Noncompliance." Going forward, in an effort to address the Comptroller's audit finding and the current FHWA Area Engineer's request, we will proceed with the development and issuance of a TDOT Instructional Bulletin to formally incorporate the 23 CFR part 27 policies and procedures for Value Engineering into the TDOT Design Guidelines.

Finding Number	2015-063
CFDA Number	20.205 and 20.509
Program Name	Highway Planning and Construction Cluster Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2013, 2014, and 2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2014-054

For the third consecutive year, the Department of Transportation did not provide adequate internal controls in one specific area

The Department of Transportation did not design and monitor internal controls in one specific area. For this one area, we are reporting internal control deficiencies related to three of the department's systems. The department claimed to have implemented corrective action in April 2015; however, we found that issues still occurred after this date.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in this area. Management should implement effective controls to ensure compliance with applicable requirements; assign staff the responsibility for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The Department of Transportation has made significant improvement since the prior audit. However, our internal controls are not at the level that they should be. We are addressing those issues.

Finding Number	2015-064
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2014 and 2015
Finding Type	Noncompliance
Compliance Requirement	Procurement and Suspension and Debarment
Questioned Costs	N/A
Repeat Finding	N/A

Management did not include suspension and debarment provisions in utility relocation contracts

Background

The Federal Highway Administration provides funds under the Highway Planning and Construction program to assist states in planning and developing a highway transportation system. The Utility Office within the Right-of-Way Division of the Department of Transportation (DOT) is responsible for relocating any utilities affected by highway construction projects. In order to complete these projects, DOT contracts with utility companies and contractors to relocate utilities as necessary for construction projects. Federal law requires that contracts, which use federal-related expenditures, include suspension and debarment provisions. When the federal government determines that a contractor should be excluded or disqualified from government contracts, the contractors are put on the System for Awards Management (SAM) list, which is to be checked by entities entering into contracts involving federal grant awards. Suspension and debarment provisions are designed to lower the risk of DOT entering into contracts with non-responsible contractors.

Condition, Criteria, and Cause

During the course of our suspension and debarment testwork, we found that DOT's Right-of-Way Division entered into a contract with a utility without ensuring that the contract included a suspension and debarment clause, as required by federal law. Based on further inquiry with the State Utility Coordinator, we determined that DOT does not include suspension and debarment language in any contracts directly entered into with utilities because, according to the State Utility Coordinator, the utility must be a party to the relocation efforts even if they have been suspended or debarred.

According to the U.S. DOT Value Engineering and Utility Program Manager, though, a suspension and debarment clause is required to be included in all contracts with utilities. The manager also stated that in the extremely rare instance that the utility is suspended or debarred and unable to perform relocation work, department management could communicate with the utility to determine whether the utility had pre-approved contractors that could perform the utility relocation work and, if so, the department must contract with those contractors. We also noted that Title 2, *Code of Federal Regulations*, Part 180, Section 300 states the following:

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking SAM Exclusions; or

(b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person.

Effect

By not including federally required suspension and debarment provisions, DOT has not complied with the federal suspension and debarment regulations and increases the risk of doing business with unapproved parties.

Recommendation

The Commissioner should immediately ensure that DOT includes suspension and debarment provisions in all contracts and performs procedures to search for disqualified or suspended parties.

Management's Comment

We concur. The Department is in the process of modifying the standard contract language to formally address the obligation of the utilities in the relocation reimbursement contracts with respect to state and federal suspension and disbarment. Once approved by the TDOT Legal Office, the revised contracts will be implemented moving forward. In addition, the Utility Instructional Bulletin associated with this activity will be revised to focus on the review of the suspension and disbarment during approvals of subrecipients related to the contract.

Finding Number	2015-065
CFDA Number	20.205 and 20.509
Program Name	Highway Planning and Construction Cluster Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

The department did not have monitoring controls in place to ensure compliance with federal provisions concerning the oversight of subrecipients

Background

The Federal Highway Administration provides funds under the Highway Planning and Construction program to the Tennessee Department of Transportation to construct and rehabilitate federal and other public roadways within the State of Tennessee. In addition, the Federal Transit Administration's Formula Grants for Rural Areas program provides federal financial assistance for capital, operating, and administrative expenses to initiate, improve, or continue public transportation service in nonurbanized areas.

In order to meet the objectives of the federal programs, the department enters into contractual agreements with entities, known as subrecipients, that perform activities essential to achieving the objectives and goals of the federal programs noted above. As the pass-through entity, the department is responsible for overseeing and monitoring the subrecipients' compliance with federal regulations. These oversight and monitoring requirements include

- ensuring that departmental subrecipients who expend $500,000 or more in federal subawards receive the required audit;
- issuing management decisions and following up on corrective actions for all audit findings that impacted federal awards passed through from the department; and
- communicating to subrecipients the required federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title, CFDA number, and the award name and number for federal program funds passed through from the department.

Under the department's current process, the subrecipient monitoring responsibilities for the Highway Planning and Construction and Formula Grants for Rural Areas programs are spread throughout multiple divisions within the department. The External Audit team within the Finance Office is responsible for monitoring subrecipients' adherence to general federal fiscal requirements, which include the following core areas:

- Allowable Cost Principles;
- Equipment & Real Property Management;
- Matching, Level of Effort, & Earmarking;
- Procurement, Suspension, and Disbarment;
- Program Income;
- Real Property Acquisition and Relocation Assistance; and,
- Special Test & Provisions that apply to financial matters.

The Long Range Planning Division (LRPD) and the Local Program Development Office are responsible for the program monitoring objectives for the Highway Planning and Construction program, while the Division of MultiModal Resources (DMTR) is responsible for the program monitoring within the Formula Grants for Rural Areas program.

Staff in each division are responsible for monitoring program-specific requirements, which include the following core areas:

- Activities Allowed and Unallowed;
- Davis-Bacon Act;
- Reporting; and
- Special Test & Provisions.

Condition and Cause

Failure to Issue Management Decisions on Findings or Follow Up on Corrective Action of Subrecipients

From a list of 143 subrecipient contracts that were effective for the period October 1, 2013, through September 30, 2014, we tested 60 subrecipient contracts to determine whether the department had 1) ensured the subrecipients obtained the required audits, 2) issued management decisions, and 3) taken corrective action. To select our items for testwork, we identified 7 subrecipients that had been monitored and received findings by department staff during our audit period. For the remaining 53 items, we selected a random nonstatistical sample from the remaining 136 subrecipient contracts. Our sample of 60 subrecipient contracts included 39 unique subrecipients that were required to receive an audit under the federal requirements.

Our review of subrecipients' audit reports revealed that two subrecipients' audit reports included findings related to federal programs administered by the department. One audit finding concerned the Highway Planning and Construction program, and one finding was related to the Formula Grants for Rural Areas. Based on our discussion with department personnel, we found that the department failed to issue a management decision and follow up on corrective action for each of the findings as required.

According to the External Audit Director, Office of Management and Budget's (OMB) Circular A-133 audits of subrecipients are performed by public accounting firms or the Tennessee Office of the Comptroller of the Treasury's Division of Local Government Audit. According to the External Audit Director, the external audit team reviews findings within these audit reports to identify funds that should be recovered by the department and will only contact subrecipients to recoup questioned costs within the findings. Furthermore, the External Audit Director was not aware that management decisions should be issued for all OMB Circular A-133 subrecipient findings, including findings that do not result in questioned costs.

According to the Assistant Director of DMTR, understaffing issues deterred DMTR from issuing management decisions and following up on corrective actions related to audit findings for subrecipients.

According to the Transportation Manager I within the LRPD, she was not aware an OMB Circular A-133 audit was conducted on the subrecipient and, as a result, did not issue a management decision or follow up on corrective action for the audit findings.

Failure to Properly Communicate Required Federal Awards Information

From a list of 144 subrecipient contracts, we selected a random nonstatistical sample of 60 contracts that were subject to a fiscal review from October 1, 2014, through September 30, 2015. We noted that 5 of the subrecipient contracts tested were agreements between the department and Rural Planning Organizations (RPOs). Our testwork revealed that for 5 of 5 subrecipient contracts tested (100%), the department did not properly communicate to the subrecipients by including the CFDA title, CFDA number, and the award name and number for federal awards in the subrecipients' contracts.

According to the LRPD Transportation Manager I, one individual was primarily responsible for monitoring the RPO subrecipient contracts; however, this individual retired on August 1, 2015, and the Transportation Manager I was unable to provide a definitive reason for failing to communicate the federal award information to the subrecipients as required by federal regulations.

Criteria

According to OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," Section 400(d),

> Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: . . .
>
> (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency . . .

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Effect

Without proper controls or procedures in place to ensure compliance with federal requirements, management cannot effectively monitor and ensure that subrecipients have taken corrective action for audit findings, or ensure that subrecipients are in full compliance with federal and state regulations. Additionally, failure to identify federal award information, as required, increases the risk that subrecipients will not comply with applicable federal policies and requirements, which could result in fraudulent, abusive, or wasteful use of federal funds.

Recommendation

The Commissioner and top management should ensure that all department staff responsible for subrecipient monitoring controls and related compliance are familiar with federal regulations and state policy related to subrecipient monitoring objectives.

The department management and staff should ensure they

- issue management decisions and follow up to correct actions for all subrecipient audit findings; and
- properly communicate in all subrecipient contracts federal award information as required.

Management's Comment

We concur. The Fiscal Grant Monitoring group in the External Audit section of the Finance Division reviews the annual audit reports from all of the department's grant recipients. Current procedures are to notify the program areas of any monetary findings related to TDOT, the agency's failure to have an A-133 audit if required, or if the A-133 audit was submitted after the nine month deadline to ensure the program area had the information to use in the risk assessment. The Finance Division will expand our notification parameters to include significant internal control issues. All TDOT grant contracts contain a clause requiring submission to the program administrator of any annual reports performed. The Finance Division will conduct training by the end of March 2016 with the program areas to discuss the importance of reviewing the audit reports and how to incorporate and document their consideration of the reports in the awarding and administration of grant recipients determined to have a higher inherent risk. We will also stress the importance of issuing management decisions on findings or follow-up on corrective actions.

The Division of Multimodal Transportation Resources (DMTR) has filled several staff vacancies in its Office of Public Transportation. Two program supervisors and five program monitors were hired within the last year. A compliance unit has been established comprised of six employees.

The unit is implementing a process to review subrecipient audit reports, provide management decisions, and follow up to corrective actions for all findings identified.

The Long Range Planning Division (LRPD) will work with the Finance Division's External Audit section to document the roles, responsibilities and procedures for responding to and issuing management decisions as well as follow-up on corrective actions for any audit findings. This information will be provided to any programmatic personnel who are charged with issuing management decisions on findings or follow-up on corrective actions for audit findings.

The LRPD is preparing documented processes that will ensure that federal award information is included in all subrecipient grant contracts. This information will be provided to any LRPD personnel who perform subrecipient monitoring. Also, LRPD personnel that are responsible for monitoring subrecipients will be participating in Grants Management Training in March 2016.

Finding Number	2015-066
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	2014-055

The Department of Transportation still did not always comply with Davis-Bacon and Related Acts

Background and Criteria

Davis-Bacon and Related Acts require laborers and mechanics employed by contractors or subcontractors on federal contracts to be paid no less than the prevailing wage rate established for that locale by the U.S. Department of Labor. In order to ensure that contractors and subcontractors are paying workers the applicable prevailing wage rate, federal regulations stipulate that contractors and subcontractors must submit weekly certified payrolls. Certified payrolls consist of two parts, a copy of the payroll and a statement of compliance with Davis-Bacon and Related Acts. According to Title 29, *Code of Federal Regulations* (CFR), Part 3, Section 4,

> Each weekly statement . . . shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work, or, if there is no representative of a Federal or State agency at the site of the building or work, the statement shall be mailed by the contractor or subcontractor, within such time, to a Federal or State agency contracting for or financing the building or work.

To prevent and detect noncompliance with this federal regulation, the Department of Transportation's Construction Division has implemented Policy No. 301-02 ("Davis-Bacon Act and Contractor Payrolls"), which specifies, "Contractor and Subcontractor certified payrolls must be submitted to the Project Supervisor within seven days after the regular payment date of the respective contractor's weekly payroll period. Payrolls should be date stamped, checked for correct classification wage scale rate as stated in the contract and corrected as necessary."

Individual construction offices (which are associated with the Department of Transportation's regional headquarters in Knoxville, Chattanooga, Nashville, and Jackson and grouped into districts) oversee compliance with Davis-Bacon and Related Acts by documenting receipt of the certified payrolls and verifying the accuracy of the wage scale rates. Our entire population of construction contract expenditures for fiscal year 2015 consisted of $182,970,352, which was associated with 63 unique contracts. We separated the contracts by region and then randomly selected contracts from each region based on the region's percentage of total contract disbursements. For each randomly selected contract, we obtained all certified payrolls within the payroll periods submitted for the period July 1, 2014, through June 30, 2015, from which we then haphazardly chose and tested two payroll periods for each. In total, our testwork represented 30 contracts, 60 payroll periods, and $114,837,336.

In the audit for the period July 1, 2013, through June 30, 2014, we noted that regional staff did not receive certified payrolls within seven days. Management concurred with our prior finding.

Condition and Cause

For 15 of the 60 total certified payrolls tested (25%), we again determined that the department did not ensure contractors complied with the 7-day submission deadline noted above. Specifically, we noted the following problems:

Region 1

- Contractors and subcontractors submitted 2 of the 16 certified payrolls tested (13%) between 5 and 17 days late. Regional staff did not obtain a reason from the contractors and subcontractors for the late receipt of the certified payrolls.

Region 2

- Contractors and subcontractors submitted 4 of the 10 certified payrolls tested (40%) between 7 and 49 days late. According to the Administrative Services Assistant 2 for District 28 and Operation District Supervisor for District 29, two of the certified payrolls were submitted earlier than the date stamped; however, regional staff could not provide evidence of the earlier submission date. In addition, according to the Administrative Services Assistant 2, for two of the payroll periods, a staff member was finalizing the project and did not realize the certified payroll had not been received until completing the final paperwork.

Region 3

- Contractors and subcontractors submitted 4 of the 14 certified payrolls tested (29%) between 3 and 15 days late. Regional staff did not obtain a reason from the contractors and subcontractors for the late receipt of the certified payrolls.

Region 4

- Contractors and subcontractors submitted 5 of the 20 certified payrolls tested (25%) between 1 and 18 days late. According to the Administrative Services Assistant 2, for one of the payroll periods, the department withheld payment until the certified payroll was received; however, the region could not provide documentation supporting this information. In addition, the Administrative Services Assistant 2 did not obtain a reason from the contractors and subcontractors as to why the remaining certified payrolls were received late.

Effect

By not maintaining communication with contractors and subcontractors, Construction Division management and staff lack evidence of compliance with 29 CFR 3.4. Additionally, by failing to ensure contractors and subcontractors are in compliance with federal regulations, division management and staff increase the risk that they will fail to timely detect workers not receiving the prevailing wage rates and that they will therefore not be in compliance with federal law.

Recommendation

The Commissioner should ensure that staff are aware of federal and department policies and follow these policies. Furthermore, the Commissioner should ask the head of each region why the problems noted in this finding keep occurring and obtain from each region a corrective action plan to fix the problems.

Management's Comment

We concur. TDOT Policy 301-02 dictates that "*Contractor and Subcontractor certified payrolls must be submitted to the Project Supervisor within seven days after the regular payment date of the respective contractor's weekly payroll period. Payrolls are to be date stamped, checked for correct classification wage scale rate as stated in the contract and corrected as necessary.*" While all but one of the payrolls in question were ultimately certified and deemed compliant with applicable wage rates, proper documentation in cases of noncompliance with the seven-day period is lacking. It should be noted that current policy requires that monthly estimates not be paid until payrolls are received, checked, and marked in SiteManager's checklist event section. Given TDOT's monthly pay estimate schedule and the variability of contractor's payroll timing, it is often the case that payrolls are received after the seven day period but prior to the estimate cutoff and therefore, payment is processed. This will continue to be an on-going issue because we are dependent on the contractor submitting the required information in a timely manner. There will, more than likely, always be cases where contractors do not meet the required timeframe. However, we will take additional steps to clarify and emphasize guidance in Circular Letter 1273-02 with the goal of providing better documentation in cases of noncompliance. In addition, Headquarters Construction will provide regional staff with a form letter that will be sent putting the contractor on notice when they are non-compliant. Also, Headquarters Construction will review and make amendments to specifications, circular letters, and Policy 301-02 as deemed necessary to improve Davis Bacon Act compliance. Next, Regional Directors will be encouraged to modify responsible staff's Individual Performance Plans, (or IPP's), to reflect the goals of compliance with Policy 301-02. Non-compliance will result in disciplinary action. Lastly, additional instruction for field and office staff will be made more readily available via a Construction Inspection Manual in which development has begun in the first quarter of 2016.

Finding Number	2015-067
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	APD/NH-52(48), APD-52(48), BR-STP-128(23), BR-STP-293(11), BR-STP-56(43), HPP-NHE-311(28), IM/HPP-65-2(89), STP/HPP-362(7), STP-29(58), STP-101(16), STP-112(4), STP-141(14), STP-208(3)
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$83,782
Repeat Finding	2014-058

For the third consecutive year, the department's Utility and Finance Offices paid utility relocation expenditures that were not adequately supported at the time of payment and also did not properly oversee utility relocation contracts

Background

The Federal Highway Administration provides funds under the Highway Planning and Construction program to assist states in planning and developing a highway transportation system. The Utility Office within the Right-of-Way Division of the Department of Transportation is responsible for relocating any utilities affected by highway construction projects. Regional offices located in Knoxville, Chattanooga, Nashville, and Jackson review and approve reimbursement requests for relocation expenditures incurred by utility providers. The department's Finance Office also reviews the requests and approves them for payment.

Utility providers may invoice the department and receive reimbursements for their relocation costs on a monthly or quarterly basis or submit a "final bill" after the completion of the relocation work. Once the providers submit the final bills for relocation projects, the External Audit section within the Finance Office reviews expenditures for relocation projects exceeding $100,000 in total costs. The Accounts Payable section performs the final approval of all relocation expenditures for payment.

The fiscal year 2014 finding noted that Utility and Finance Office staff did not receive and maintain adequate documentation to support reimbursements, that Utility Office staff stamped invoices as "Not Checked For Mathematical Errors!!!," and that the department's oversight of required utility relocation contracts contained weaknesses. Management concurred in part with the prior finding, disagreeing with the contract oversight condition.

Condition, Criteria, and Cause

For our current audit period of July 1, 2014, through June 30, 2015, we obtained a list of all 204 payments the department made directly to utility providers for utility relocation, totaling $7,931,557. We then selected a random, nonstatistical sample of 60 payments, accounting for

$4,040,056. Although the department corrected the prior condition involving mathematical accuracy, we again noted deficiencies related to lack of controls over contracts and approved reimbursements, which ultimately resulted in $83,782 in federal questioned costs.

Failure to Follow Utility Contract Agreements

Payments to Utility Providers Exceeded Estimated Contract Amounts

For 4 of 60 utility payments reviewed (7%), we found that Utility and Finance Office staff approved reimbursement requests that exceeded the estimated contract costs, even though staff had not issued prior written approval for these overages. See the table below.

Table 1

Item #	**Contract No.**	**Utility**	**Approved Estimate**	**Amount Reimbursed**	**Amount Over Estimate**	**Federal Amount Questioned**
1	CU8135	Upper Cumberland Electric Membership Corporation	$ 41,153	$ 64,038	$ 22,885	$ 18,308
2	CU8132	Meriwether Lewis Electric Cooperative	2,969	3,039	70	56
3	CU7848A	Ripley Gas & Water Dept.	516,175	561,764	45,589	36,471
4	CU7958	Milcrofton Utility District	63,359	79,948	13,590	10,872
					Total Amount of Questioned Costs:	**$ 65,707**

Title 23, *Code of Federal Regulations* (CFR), Part 645, Section 113, and the utility relocation contract both state, "Any change in the approved estimate of cost, schedule of work, or plan, shall require the prior written approval of the State Agency."

The Utilities Director told us that the Utilities Office implemented changes to its policies and procedures due to our prior audit finding but that these contracts were in effect before the changes were implemented in August 2015. According to the Utilities Director, the Utilities Office now requires a supervising engineer to approve necessary changes in the field; then at the end of the project, the Utilities Office sends a contract addendum to the Commissioner for final approval. These corrective actions were not completed until after the end of our audit period; therefore, we were unable to verify their effectiveness.

Reimbursement Payments Made Outside Contract Scope

We determined that for 1 of 60 payments reviewed (2%), Utility and Finance Office staff received and paid a reimbursement request that fell outside the scope of the utility agreement, resulting in questioned costs of $21,227 ($16,982 in federal funds). Specifically, we noted that the department contacted the utility provider in April 2013 to request a final billing; however, the provider had completed the project in August 23, 2007, about 5.5 years prior. According to clause 8(f) of the utility relocation contract,

> [T]he Utility shall by invoice provide one final and complete billing of all costs incurred, or of the agreed-to lump sum, **within one year** following the completion of the Utility relocation work in its entirety [emphasis added]. Otherwise, any previous payments to the Utility shall be considered final, and the Utility shall be deemed to have waived any claim for additional payments, except as TDOT [Tennessee Department of Transportation] and Utility may have agreed otherwise in writing before the end of that year.

Despite our requests, Utility and Finance Office staff did not present us with evidence showing that they had extended the utility provider's final billing deadline before the end of the first year after project completion.

In addition to the delayed final billing, our testwork revealed that this utility provider did not complete its relocation work by the deadline delineated in the contract. The utility contract stated that the provider must complete the relocation by September 1, 2006; however, the provider did not complete the relocation until August 23, 2007, nearly a year after the deadline. Clause 1(a) in the utility relocation contract specifies,

> The Utility shall relocate its facilities in accordance with the estimate of costs, schedule of work and plan as approved by TDOT . . . the Utility shall complete this relocation prior to the date: September 1, 2006. Failure to complete the relocation prior to this date will be considered a material breach of this contract and subject the utility to forfeiture of any reimbursement for the relocation of utility facilities located on public highway right-of-way.

Based on discussion with the Director of the Right-of-Way Division and the Director of the Finance Office, the department does not agree that the contract scope violations are a problem. The department's legal staff told them the department is not harmed by these occurrences; therefore, they do not believe any changes are necessary. We believe that because the department paid the contractor outside the contracts terms, these expenditures are not appropriate charges to the federal grant.

Approvals for Reimbursement Payments Not in Compliance with Contract Requirements

For 4 of 60 payments reviewed (7%), we found that the Finance Office approved four utility providers' interim reimbursements, although they were over the maximum 80% threshold. According to the utility relocation contract,

> The Utility may submit invoices for interim payments during the progress of the work; provided, however, that such interim payments may be approved only up to a maximum of eighty percent (80%) of the approved estimate of reimbursable costs for the total relocation project, as described in Exhibit "A" of this Contract, and any remaining reimbursable costs must be submitted on the final bill.

The Director of Finance said that the Finance Office misunderstood the contract language. In response to our disclosure of this condition, the Finance Office has made automated changes within Edison, the state's accounting system, that will now only let the utility provider charge—and the department pay—up to 80% before the final bill. Furthermore, the Utility Director reported that the Utility Office has sent out a memorandum to inform the regional offices that reimbursements should only be approved up to 80% of the contract amount before receiving a final bill.

Approved Reimbursement Errors

Insufficient Supporting Documentation

For 2 of 60 payments reviewed (3%), we determined that the Finance Office approved reimbursement requests for a utility provider without documentation that was sufficiently detailed to support the amounts charged to the federal program. This condition resulted in federal questioned costs of $1,065.

According to Title 23, CFR, Part 645, Section 103, expenditures incurred for relocating utilities are eligible for Federal Highway Administration reimbursement provided these costs are incurred in a manner consistent with state laws and federal regulations. Additionally, Office of Management and Budget Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Part C-1, states, "To be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards[,] . . . authorized or not prohibited under State or local laws or regulations[, and] . . . adequately documented."

Incorrect Mileage Rate

For 2 of 60 payments reviewed (3%), we found that the Finance Office approved reimbursement requests for the utility providers at an incorrect mileage rate. Finance Office staff reimbursed mileage at rates of $.50 and $.54 cents per mile, rather than the approved state rate of $.47 cents per mile. This condition resulted in $28 of federal questioned costs.

According to the Tennessee Department of Finance and Administration's Policy 8, "Comprehensive Travel Regulations," mileage "for the use of personally owned cars is at the standard mileage rate." The standard mileage rate of $.47 per mile became effective August 1, 2011, and remained in effect throughout our audit period.

Effect

By not following properly executed utility contracts, the department increases its risk of losing legal standing, which could be harmful in the event of a dispute with a utility provider. Furthermore, without a standardized, thorough review performed by both Utility and Finance Office staff, the department cannot ensure that all utility costs are eligible for reimbursement.

Recommendation

The Commissioner should ensure that the department develops policies and procedures to ensure compliance with all contract provisions and all federal laws. In addition, the Finance Office should ensure that adequate supporting documentation is obtained prior to approving reimbursements for payment.

Management's Comment

We concur in part as noted below.

Payments to Utility Providers Exceeded Estimated Contract Amounts

We concur in part. As noted in the auditor's comments, the Utilities Office has already implemented the requirement of a construction engineer's prior approval to changes in the field. In addition to Construction's prior approval, the Finance Office requires a fully executed contract addendum in order to pay overages to the original contract amount. Corrective measures were implemented after the training with the Regional Offices, which took place in August and September 2015. Guidelines were established for what constitutes an amendment to the contract. These changes had not been implemented at the time the questioned payments were made. However, these payments totaling $82,133.27 ($65,706.61 federal) were still valid justified costs of the projects and as such we do not concur with the questioned costs.

Reimbursement Payments Made Outside Contract Scope

We concur in part with the portion of the finding stating the Department paid a reimbursement request that fell outside the scope of the utility agreement. That is correct and a mistake was made; in the process of closing out the project, it was noted the utility had not submitted a final invoice and contact was made with the utility for this invoice. The Department will change the language in our contracts regarding 8(f) to provide more flexibility regarding the final billing within one year of the completion of the utility relocation work in its entirety.

We do not concur with the portion of the finding which stated "The utility contract stated that the provider must complete the relocation by September 1, 2006; however, the provider did not complete the relocation until August 23, 2007, nearly a year after the deadline." The Department does not concur with $21,227 ($16,981.73 federal) of the questioned costs. For the questioned costs related to the material breach of contract, the finding does accurately quote paragraph 1(a) of the utility contract #6714 between TDOT and Twin Lakes Telephone CO-OP. The purpose of this contract was to reimburse Twin Lakes Telephone CO-OP for the cost of relocating their lines to accommodate TDOT's construction of a bridge over Crabtree Creek. To the extent that part of the telephone lines were located on Twin Lakes private easement, TDOT was required to reimburse Twin Lakes for the taking of its property interest (see T.C.A. 54-5-807), and to the extent that part of the phone lines were on public highway right of way the intent of the contract was to reimburse Twin Lakes for the relocation of those facilities so long as Twin Lakes removed all conflicting facilities prior to the letting of TDOT's highway construction contract, as provided in T.C.A. 54-5-804(a)(2)(B).

The intent of paragraph 1(a) is to establish the letting date by which the utility must remove its conflicting facilities. In this case, after Utility Contract #6714 was executed, TDOT's construction letting date was moved from September 1, 2006. The final letting date was October 30, 2009, three years after the original date. As noted in the audit finding Twin lakes Telephone CO-OP relocated all their conflicts by August 23, 2007, two years and two months prior to the project letting date. Therefore, the purpose of the contract and in particular the intent of paragraph 1(a) was met. It would be unfair not to reimburse Twin Lakes for the successful removal of its conflicting facilities from public right of way prior to TDOT's project letting date. Twin Lakes did what it was supposed to do and TDOT has no contract damages to recover.

This was the same finding from last year's audit as well. As a result from last year's audit, the Department has updated the contract language in our utility relocation contracts to clarify the intent of the Department and the utility. We will provide training to the Regional Utility Offices and remind the utilities of the need to adhere to the language in the contracts.

Approvals for Reimbursement Payments Not in Compliance with Contract Requirements

We concur. A statewide memorandum was distributed by the State Utility Coordinator to all the regions on January 28, 2016. The memorandum reiterated the current contract language that caps partial reimbursement at eighty percent of the total contract amount. The memorandum instructs the regions to monitor the cumulative invoices received prior to the final invoice to ensure the total amount does not exceed the eighty percent cap. The Finance Office will only establish encumbrances on new agreements for eighty percent of the contract amount in Edison, in order to limit the amount that may be paid out on a contract prior to final invoicing. The remaining amount of the contract will be established at the time of the final invoice being received.

Any utility agreements that were already encumbered prior to January 28, 2016 will be manually checked for the eighty percent cap by both the Regional Utility Office and the Finance Office.

Insufficient Supporting Documentation

We concur. The total questioned costs for insufficient supporting documentation is $1,330.55 ($1,064.44 federal). The utility provided a summary for materials and equipment, outside services, and contract labor, but they weren't able to supply more detailed information related to these expenses prior to this response. The Regional Utility Office and the Finance Office understand the importance of sufficient supporting documentation, prior to approving an invoice for payment. The Finance Office will continue to work with both the Regional Offices and the utilities to improve in this area.

Incorrect Mileage Rate

We concur. The total questioned costs for an incorrect mileage rate is $34.88 ($27.91 federal). The utility billed for rates higher than the travel regulations at the time. This was covered in the training that took place in August and September 2015. It was communicated that the utility can utilize their approved travel regulations in lieu of the State of Tennessee Travel Regulations, but they must provide that documentation at the time of the reimbursement request. The Regional Utility Office and the Finance will validate the rates, prior to the approval for payment.

Auditor's Comment

Payments to Utility Providers Exceeded Estimated Contract Amounts

According to Title 2, *Code of Federal Regulations*, Part 200, Section 84, questioned costs are "costs questioned by an auditor because of a compliance violation, lack of documentation, or because they seem unreasonable." Since Management could not provide us with evidence of prior written approval of costs that exceeded the contracted amounts, we questioned the federal costs of $65,706.

Reimbursement Payments Made Outside Contract Scope

We understand management's position on payment to the utility for relocation services which were ultimately completed; however, we recommend that management amend contract terms, as necessary, to ensure that the department's intentions are properly established between the parties.

Finding Number	2015-068
CFDA Number	20.509
Program Name	Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2014 and 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$9,910
Repeat Finding	2014-060

As noted in six prior findings, the department did not establish adequate internal controls to ensure compliance with allowable cost requirements

Background

The Formula Grants for Rural Areas program provides federal financial assistance for capital, operating, and administrative expenses to initiate, improve, or continue public transportation service in nonurbanized areas. The Division of Multimodal Transportation Resources (DMTR) within the Department of Transportation administers the Formula Grants program through subrecipients that act as transit providers in rural areas. These subrecipients submit to DMTR reimbursement requests for their transit service expenses. After DMTR approves the reimbursement requests, the Accounts Payable section within the department's Finance Office performs another review, issues payments to the subrecipients, and then bills the Federal Transit Administration for the federal share of costs.

We also identified an allowable costs/cost principles finding in the prior six audits. The fiscal year 2014 finding consisted of two parts: insufficient documentation for the use of contract revenue and noncompliance with federal allowable cost guidelines.

Condition and Criteria

We tested 60 transactions (representing $7,538,452) from a population of 342 expenditure transactions (totaling $16,976,528) charged to the Formula Grants program for the period July 1, 2014, through June 30, 2015. We found that while management and staff had corrected the prior condition involving contract revenue, management and staff did not comply with the following federal allowable cost guidelines, which resulted in a total of $9,910 in questioned costs:

- Items Not Supported – expenditures lacked adequate supporting documentation, resulting in $6,368 questioned costs;
- Sales Tax Included – the subrecipient submitted reimbursement requests for expenditures that included sales tax, which is not allowed by federal guidelines and resulted in $232 questioned costs;

- Not Necessary or Reasonable – the subrecipient submitted reimbursement requests for cable or satellite television services and late fees, which is not a reasonable or necessary expenditure for the Formula Grants program, resulting in $523 questioned costs; and
- Inconsistent Allocation Rate – the subrecipients used allocation rates that were not properly approved, resulting in $2,787 questioned costs.

Details of Items of Noncompliance

Items Not Supported

For 4 of the 60 transactions reviewed (7%), we noted 6 separate occurrences where the subrecipients did not have adequate support for the amounts charged to the federal program. See the chart below for details.

Table 1

Item #	Agency	Invoice	Description	Questioned Costs	Occurrences
1	East Tennessee HRA*	Z14RT000209	No Support	$4,829	1
2	East Tennessee HRA	Z14RT000210	No Support	1,113	3
3	East Tennessee HRA	GG143886101 GG154277101	No Support	376	1
4	Mid-Cumberland HRA	Z14RT00060005	No Support	50	1
			Totals:	**$6,368**	**6**

*Human Resource Agency.

According to Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments,” Part C. (Basic Guidelines) 1-j, “costs must . . . [b]e adequately documented.”

Sales Tax Included

For 9 of the 60 transactions reviewed (15%), we found 53 separate occurrences of the subrecipients, despite exemptions for nonprofits available through the Department of Revenue, including sales tax in their reimbursement requests and subsequently receiving reimbursement for those amounts from the department. See the chart below.

Table 2

Item #	Agency	Invoice	Description	Questioned Costs	Occurrences
1	East Tennessee HRA	GG143886101 GG154277101	Sales Tax	$ 10	4

2	East Tennessee HRA	Z14RT000210	Sales Tax	6	9
3	Mid-Cumberland HRA	Z14RT00060008	Sales Tax	7	3
4	South Central Tennessee DD*	1555311INV#1	Sales Tax	112	6
5	South Central Tennessee DD	1635311INV#10	Sales Tax	12	2
6	South Central Tennessee DD	1635311INV#9	Sales Tax	41	9
7	South Central Tennessee DD	1815311INV#1	Sales Tax	13	2
8	South Central Tennessee DD	1815311INV#3	Sales Tax	30	14
9	South Central Tennessee DD	1815311INV#4	Sales Tax	1	4
			Totals:	**$232**	**53**

*Development District.

Attachment B of OMB Circular A-87 states, "Taxes that a governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs." Our interpretation of the Circular is that Tennessee's sales tax falls under the category of "self-assessed taxes" and could have a disproportionate effect on the federal programs if state agencies allowed all of its subrecipients to claim sales taxes that were then passed on to the federal grantors. In addition, we believe that because the department's subrecipients are nonprofit organizations who can request and receive sales tax exemption status, those entities should neither pay sales tax on items nor bill the department for those taxes. The department should disallow any sales tax from tax-exempt subrecipients that paid the tax due to oversight or error. DMTR management does not believe that the sales tax has a disproportionate effect on the federal programs. Based on our interpretation, we have deemed all sales tax unallowable.

Not Necessary or Reasonable

For 4 of the 60 transactions reviewed (7%), we found 39 separate occurrences of subrecipients requesting the department reimburse them for cable and satellite television, which is made available to employees in the agency's breakroom, or late fees assessed by vendors (telephone, cable, and credit card companies) when the subrecipients missed vendor payment due dates. The department paid the subrecipients based on these reimbursement requests and then charged the federal grantor for these unnecessary expenses. DMTR management's interpretation is that cable and satellite television costs are for employee morale and safety. Our interpretation is that cable and satellite television are not necessary grant expenditures, as they are not required to complete the daily program objectives. Additionally, with the availability of the Internet, agency staff are able to monitor and track potential emergencies. We present details in the chart below.

Table 3

Item #	Agency	Invoice	Description	Questioned Costs	Occurrences
1	South Central Tennessee DD	1555311INV#1	Late Fee Television	$ 9 101	3 3
2	South Central Tennessee DD	1635311INV#9	Late Fee Television	43 229	13 9
3	South Central Tennessee DD	1815311INV#2	Late Fee Television	26 104	6 3
4	South Central Tennessee DD	1815311INV#3	Late Fee	11	2
			Totals:	**$523**	**39**

According to OMB Circular A-87, Part C-1-j, "costs must . . . [b]e necessary and reasonable for proper and efficient performance and administration of Federal awards."

Inconsistent Allocation Rate

For 5 of the 60 transactions reviewed (8%), we found 9 separate occurrences of subrecipients allocating charges for fringe benefits and indirect costs at an inconsistent allocation rate, which resulted in overcharges to the federal program. During part of fiscal year 2015, the subrecipient requested and the department approved reimbursement for expenditures at a pre-approved allocation rate; however, during other parts of the year, the subrecipient requested and the department approved reimbursement for expenditures at an allocation rate higher than the approved one. DMTR staff did not detect the differences in the allocation rates used. See the chart below for further information.

Table 4

Item #	Agency	Invoice	Description	Questioned Costs*	Occurrences
1	East Tennessee HRA	GG143886101 GG154277101	Inconsistent Allocation	$1,607	2
2	East Tennessee HRA	Z14RT000209	Inconsistent Allocation	47	1
3	East Tennessee HRA	Z14RT000210	Inconsistent Allocation	653	2
4	East Tennessee HRA	Z14RT000214	Inconsistent Allocation	451	2
5	South Central Tennessee DD	1635311INV#9	Inconsistent Allocation	29	2
			Totals:	**$2,787**	**9**

*Difference between approved rate and higher unapproved rate.

According to OMB Circular A-87, Part C-1-e, “costs must . . . [b]e consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the government unit.”

Cause

Department of Transportation management did not concur with the fiscal year 2014 allowable costs/cost principles finding, and as a result, management did not implement additional control procedures to address the problems noted in that finding (some of which are repeated in this finding). Management stated, “DMTR asserts that the remaining . . . costs identified in the draft finding should not be questioned based upon applicable federal guidance and standard business practices. The state auditors used inappropriate criteria in place of the appropriate state and federal guidelines against which these charges should be audited.” After discussing the criteria we used with DMTR management, the DMTR Assistant Director explained that he believes that the errors we noted are based on a difference of interpretation of OMB Circular A-87.

Effect

Proper interpretation of cost principles in OMB Circular A-87 is essential to ensure the department is a good steward of public funds. Furthermore, OMB Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program. Combined with the questioned costs delineated in 15-VAR-01, known questioned costs for the allowable costs/cost principles compliance requirement for the Formula Grants program exceed $10,000.

Recommendation

The Commissioner should implement controls to ensure that costs reimbursed to subrecipients are allowable. Additionally, the Commissioner should seek guidance from top management of the federal Department of Transportation on the issues noted in this finding and, in consultation with us, should seek resolution of the differences in interpretation of federal law noted above.

Management’s Comment

The Division of Multimodal Transportation Resources (DMTR) concurs in part.

DMTR concurs with the following questioned costs:

- All items labeled “Items Not Supported” ($6,368)
- Certain items labeled “Inconsistent Allocation Rate” ($2,810)

DMTR does not concur with the following questioned costs:

- All items “Sales Tax Included” ($232)
- All items labeled “Not Necessary or Reasonable” ($523)

- One item labeled "Inconsistent Allocation Rate" ($6)

<u>Items Not Supported</u>

DMTR concurs with all items labeled Items Not Supported and a refund of the federal amount of $6,368. There are multiple types of issues that occurred with these transactions and they are discussed by agency.

East Tennessee Human Resource Agency (ETHRA)
ETHRA billed $6,210 for vehicle repair services. ETHRA has documentation of the billings that were incorrectly charged to the transportation program. These expenses are repairs to vehicles that insurance will reimburse. ETHRA understands that these are not allowable amounts. They have met with accounting staff so that they are aware of the issue and assigned all vehicle repair transactions to a specific staff member. The accounting staff member has been instructed not to charge repair estimates to transportation grants. Division of Multimodal Transportation Resources (DMTR) has instructed its reimbursement processing staff regarding repair transactions and added an item check on the invoice processing checklist used by DMTR staff.

ETHRA billed $108 that represented duplicate billings. ETHRA receives a handwritten invoice from one of their vendors. The vendor mistakenly submitted the invoice twice to ETHRA which paid both bills and then submitted both payments to the program for reimbursement. ETHRA discussed this issue with their accounting staff so that they are aware of the issue and assigned all of this vendor's billings to a specific staff member. That staff member has been instructed to check the vendor payment file to prevent duplicate billings. DMTR has instructed its reimbursement processing staff to call a Subrecipient if they find a handwritten bill in the reimbursement request package. They are to confirm with the Subrecipient that a duplicate billing has not occurred. An item has been added to the DMTR staff processing checklist as a reminder to check.

Mid-Cumberland Human Resource Agency (MCHRA)
MCHRA invoiced $50 in costs that originated from invoice coding keying errors. MCHRA has documentation of the expense; however, MCHRA coded and keyed an expense incurred by another program as a transportation program expense. MCHRA has controls to review the result of transaction entry; however, this amount was missed due to the relatively small amount. MCHRA maintains controls to review their accounting journals to check for correct transaction entry.

<u>Sales Tax Included</u>

DMTR does not concur with items labeled "Sales Tax Included" and the questioned amount of federal funds of $232.

These expenses are state sales taxes charged on multiple smaller transactions. As 2 CFR Part 225 (A-87) Appendix B, 40. *Taxes,* states; *a) Taxes that* a *governmental unit is legally required to pay are allowable, except for self-assessed taxes that disproportionately affect Federal programs or changes in tax policies that disproportionately affect Federal programs.* In regard to Tennessee's State Sales tax, it is a tax that affects all sales transactions across the state. It was not put into place to affect Federal Programs disproportionately. The State of Tennessee sets the level of tax and assesses the tax, not the grantee. The tax described in this paragraph of the circular is for the case of a local government that passes a tax that has the intent to purposefully gain from a Federal grant. For example, if a local government were to pass a tax on transit fuel, that type of tax has the result of adding charges to a federal grant with a tax that is directly attached to the grant's purpose. The state sales tax is legally required. There isn't a federal requirement that a local government unit must use a tax exemption that they have available. In most cases, Subrecipients do use their tax exemptions; however, there may be certain circumstances in which it is not prudent or efficient for requesting reimbursement or claiming an exemption, such as small non-recurring transactions. DMTR holds that transit agency management should use their discretion in determining when claiming tax exempt status is cost effective. Regardless of this, under paragraph 40, taxes are an allowable cost for local governments.

As to the question of entity type, the Comptroller states "... because the department's Subrecipients are nonprofit organizations ..." Actually, the Subrecipients in question are all treated as local government units for transit purposes, not as nonprofit organizations. South Central Tennessee Development District (SCTDD) is a development district, created under the Tennessee Development District Act of 1965 (TCA Title 13 Chapter 14), and as discussed by the Attorney General in Opinion Number 09-126, it is a public body or a local government unit. East Tennessee Human Resource Agency (ETHRA) and Mid-Cumberland Human Resource Agency (MCHRA) are human resource agencies and created under the Tennessee Human Resource Agency Act of 1973 (TCA Title 13 chapter 26) as both a nonprofit and government body. For transit purposes, human resource agencies are treated as local government units. The treatment of all Human Resource Agency Subrecipients as local government units can be seen in the application of circular A-87 (2 CFR Part 225) historically as the governing circular in audits. Circular A-87 is applied for State, Local, and Indian Tribal Governments.

Not Necessary or Reasonable

DMTR does not concur with the items labeled "Not Necessary or Reasonable" and the questioned amount of federal funds of $523.

South Central Tennessee Development District (SCTDD)
$434 in costs originated from basic television service charges for access to news on current events in their service areas, weather conditions, and other informational needs. The Subrecipient does not have a premium service but the basic service needed to get local station access for local news. These activities fall under the normal operating activities and responsibilities of a transit agency. $89 in costs originated from expenses small late fees on multiple (22) transactions. These transactions are late fees received from businesses in regular billing statements in the normal course of the service activity of the Subrecipient. While DMTR agrees that late fees should be avoided, this amount of late fees is within reasonable business operations.

Inconsistent Allocation Rate

DMTR concurs in part with items labeled Inconsistent Allocation Rate and a refund of the federal amount of $2,810. DMTR does not concur with some items in this section and the questioned amount of federal funds of $6.

East Tennessee Human Resource Agency (ETHRA)
$2,692 in costs originated from an allocation calculation error that occurred from within ETHRA's payroll system. This amount represents the amount in excess of the correct allocation amount. Not in response to this issue, ETHRA had previously scheduled to install a new payroll system. These errors occurred in ETHRA's old payroll system. Upon installation and testing of the new system, ETHRA confirmed that the amounts calculate correctly. ETHRA also checks the allocation result monthly. $95 in costs originated from ETHRA personnel who submitted an invoice for information systems installation to the incorrect accounting staff member. ETHRA personnel submitted a bill to an accounting staff member that was not aware that the charge should be allocated across programs instead of being directly charged to the transportation program. This amount represents the amount in excess of the correct allocation amount. ETHRA staff were instructed in the process and directed to the correct person to submit invoices that require allocation. ETHRA also discussed this issue with its accounting staff so that all would be aware of what to do should they receive this type of charge.

South Central Tennessee Development District (SCTDD)
$29 in costs originated from allocation calculation notations on billings that did not match the actual allocation percentage. In one case the percentage noted for the transit program was greater than the actual percentage for the program. For this item, $23 represents the amount in excess of the correct allocation amount which is unallowable. In another case the percentage noted for the transit program was less than the actual percentage for the program. For this item, however, auditors determined a $6 excess amount, when there wasn't an actual excess. Instead of using the actual percentage needed by the agency, auditors used a notation written on the bill that noted two percentages, both of which were wrong.

Regarding the Cause

DMTR did not concur with the 2014 allowable cost principles finding, 2014-060, and does not agree that this is a repeat finding due to this. It must be noted that the FTA sent its management decision regarding 2014-060 to the Comptroller. In that decision, of the $258,022 in questioned costs only the amount that DMTR agreed were mathematical errors, $467, were decided to be unallowable. While the FTA did not specifically agree with DMTR in regard to each allowable item, it did state that finding 2014-060 was not adequately documented in the report to justify that the costs were unallowable.

Regarding the Recommendation

DMTR has discussed these issues with each affected Subrecipient as noted in the above section descriptions. The total federal amount DMTR concurs as unallowable, $9,178, has been requested from each Subrecipient to be returned. DMTR believes the unallowable costs with which it concurs are of a sporadic nature and are not a systemic issue. DMTR, as it has in the past, will continue to work toward an accurate understanding of all allowable cost interpretations.

DMTR will continue to evaluate the effectiveness and efficiency of operations and controls to maintain and improve reporting compliance.

Auditor's Comment

Sales Tax Included

Our interpretation of Circular A-87 and the new Uniform Guidance is that sales tax is not an allowable cost under the federal grant. Furthermore, in this specific case, the subrecipient was classified as a non-profit organization and should not have paid sales tax in its procurement transactions in the first place. To expect the federal grantor to fund this error is inappropriate.

Not Necessary or Reasonable

We believe that the $434 in questioned costs for television service charges are not appropriate or necessary charges to the federal grant. During our review we noted that all subrecipients received reimbursement for Internet services, which provide adequate access to news, weather conditions, or other informational needs.

Regarding the Cause

As noted above, the Federal Transit Administration (FTA) provided us with a management decision regarding the 2014-060 finding, which specifically stated, "Questionable costs were not adequately documented in the single audit report." We would like to note that our office was never contacted by FTA prior to the management decision. In addition, our supporting documentation for all audit findings is available to the FTA upon request.

Finding Number	2015-069
CFDA Number	84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	N/A
Federal Award Year	2014-2015
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

Tennessee State University did not properly report enrollment data

Condition

The Records Office at Tennessee State University did not properly report enrollment data for the Direct Loan borrowers who either graduated or did not return to the university during the subsequent semester. We tested a sample of 30 students whose status changed in some way (e.g., a reduction or increase in attendance levels, graduation, official withdrawal, unofficial withdrawal, or enrolled but never attended) to determine whether the university reported the change in status to the National Student Clearinghouse properly and timely. Of those 30 students tested, the status changes for eight students (26.7%) were not reported until 69 or 70 days after the change occurred. Six of the eight students graduated on December 13, 2014; however, the Clearinghouse did not receive the graduation file until February 20, 2015 (69 days later). The other two students withdrew after completing the fall semester, which ended on December 4, 2014; however, the Clearinghouse was not notified of their withdrawal status until February 12, 2015 (70 days later).

Criteria

According to the *Office of Management and Budget Circular A-133 Compliance Supplement*, Part 5,

> Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days. These changes include reductions or increases in attendance levels, withdrawals, graduations, or approved leaves-of-absence.

Cause

The Registrar stated that degrees are not posted for December graduates until after employees have returned from the holiday break. In addition, winter weather caused the university to be completely closed for a number of days in both January and February.

Effect

Not accurately reporting enrollment status changes could result in the inappropriate granting of an in-school deferment or the failure to properly initiate the loan repayment process.

Recommendation

The Registrar should ensure that all enrollment status changes for Direct Loan borrowers are reported timely in compliance with federal regulations. She should develop a process to perform ongoing reviews and implement written procedures to ensure proper reporting.

Management's Comment

We concur. Effective immediately, the process for transmitting information to the National Student Clearinghouse will include the following:

- Graduation clearances will occur within 30 days following the end of each term.
- Students will be required to refile for graduation if retroactive adjustments are made that make them eligible to graduate.
- Change in Status reports will be transmitted every 30 days and intermittently as needed.
- Multiple requests will be forwarded to faculty to record attendance in the Banner system.

Finding Number	2015-070
CFDA Number	84.007, 84.038, 84.063, 84.268, 84.379, and 84.408
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee Technological University
Grant/Contract No.	N/A
Federal Award Year	2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$2,464.00 (84.063)
	$2,311.00 (84.268)
Repeat Finding	N/A

The university's financial aid office understated to the Department of Education returns of Title IV student financial aid of students who withdrew from classes

Condition

Tennessee Technological University did not correctly return to the U.S. Department of Education (ED) Title IV student financial aid of students who withdrew from classes. This resulted in questioned costs of $4,775.

Following federal guidance in the OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," Part 5, we reviewed the accounts of 13 students who received Title IV aid and withdrew, dropped, or were terminated from classes at any point during the year. For 1 of 13 accounts tested (7.7%), though the return amount was calculated properly in Banner, the student information system, an incorrect amount was returned to ED.

Based on the nature of the error (an automated process followed by a manual process), we performed additional testwork and focused on Title IV recipients who withdrew from classes before the 60% point in the fall 2014 and spring 2015 semesters. By focusing on the early portion of the semester, we could concentrate our testwork on those students whose withdrawal from classes would have required a return of funds to ED. We reviewed an additional sample of 37 student accounts with required returns and compared amounts calculated in Banner to amounts that were returned for each student. Our testwork revealed that returns for 3 of 37 students tested (8.1%) were not made correctly to ED.

Prior to our testwork, the university had returned $192,588 to ED. Our testwork ultimately examined $106,418 of returns due and found the actual returns to be understated by $4,775.

Criteria

According to the 2014-2015 *Federal Student Aid Handbook*, Volume 5, Page 96, "[a] school **must** return unearned funds for which it is responsible **as soon as possible but** [emphasis in original] no later than 45 days from the determination of a student's withdrawal."

Cause

The Director of Financial Aid stated that these errors were caused by oversight. Although the returns calculations are automated in Banner, the recording of the returns to the students' accounts is a manual process. The Financial Aid Department had no review process for comparing returns manually posted to students' accounts with the returns calculated by Banner. The director entered the return information into each student's Banner account using paper copies of the Banner "Return of Title IV Funds Calculation Process" report. For two of the four errors found, including the initial error noted, the director entered incorrect amounts into the students' accounts, causing the returns to be understated. For the other two errors found, the director completely overlooked the students' required returns noted in the reports.

Effect

Not comparing totals from Banner reports to return amounts posted to students' accounts allows posting errors to go undetected, resulting in questioned costs. Understating returns could result in adverse actions against the university.

Recommendation

The Director of Financial Aid should perform a reconciliation between the original Banner calculation reports and amounts to be reported and returned to ED to ensure that returns of Title IV student financial aid are processed correctly and timely.

Management's Comment

We concur with the finding and recommendation. Three mathematical errors were found in the review of the 2014-15 withdrawal calculations prior to the close of the award year. The errors were corrected and updated on the student accounts and submitted to the Department of Education.

The Office of Financial Aid has amended their review policy to eliminate this error on future reports. The process is as follows:

1) Financial Aid Assistant (FAA) will run the withdrawal report in query mode.
2) Director will run the withdrawal report in update mode.
3) FAA and Director will meet to compare reports.
4) Director will make adjustments to student accounts.
5) (New) FAA will then take the update report and compare to RSIAREV to ensure the amount listed on the report is the same as what was adjusted on the student account. FAA will initial each item if correct and bring the final report to Director for correcting, or if no corrections need to be made, file the report for the audit.

Finding Number	2015-071
CFDA Number	15.805, 93.273, and 93.847
Program Name	Research and Development Cluster
Federal Agency	Department of the Interior Department of Health and Human Services
State Agency	University of Tennessee
Grant/Contract No.	G11AP20107; 5U01AA016662; 5U01DK048411
Federal Award Year	3/1/2011-2/29/2016; 2/10/2014-1/31/2015; 2/10/15-1/31/2016
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	\$6,756.00 (15.805) \$2,908.50 (93.273) \$2,449.50 (93.847)
Repeat Finding	N/A

Principal investigators at the University of Tennessee Institute of Agriculture and the University of Tennessee Health Science Center did not ensure that obligations charged to federal awards were allowable under federal research and development grants, resulting in federal questioned costs of $12,114

Condition

The university requested and received reimbursement for unallowable costs. We tested 117 randomly selected transactions charged to federal research and development grants and contracts for the period July 1, 2014, through April 30, 2015. We found that 3 of the 117 transactions (2.6%) were unallowable. These unallowable costs were (1) student tuition and fees paid by the grant in lieu of wages although the student did not perform work under the specific project during the associated time period, (2) an iMac computer charged as a direct cost without justification being included in the grant proposal, and (3) copy machine rental charged as direct costs without justification being included in the grant proposal.

Student fees of $6,756 were charged to grant number G11AP20107 at the University of Tennessee Institute of Agriculture. The computer was charged to grant number 5U01AA016662 at the University of Tennessee Health Science Center at a cost of $1,939 plus facilities and administration charges of $969.50. The copy machine rental was charged to grant number 5U01DK048411 at the University of Tennessee Health Science Center and totaled $1,633 plus facilities and administration charges of $816.50.

Our test of a sample of $2,741,506 from a total population of $128,659,620 resulted in total federal questioned costs of $12,114.

Criteria

Student Fees

According to 2 CFR 200.E466,

> …tuition remission and other forms of compensation paid as, or in lieu of, wages to students performing necessary work are allowable provided that: (1) The individual is conducting activities necessary to the Federal award. . . .

Computer

According to 2 CFR 200.E453,

> In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

However, university policy states, "If these items are proposed as direct costs, acceptable justification will be required to be included in the proposal submitted to the sponsor. If not previously approved in the proposal budget by the sponsor, purchases made after award will require prior justification and approval from the designated pre or post award campus or institute office. . . ." The grant proposal states that "any computer related supplies or software will be provided by UTHSC," and no justification or approval was obtained by the appropriate office prior to the purchase. Thus, there was no documentation that the cost of the computer was essential and allocable. The principal investigator agreed that the iMac should not have been purchased under this grant.

Copy Machine Rental

According to 2 CFR 200, Appendix III,

> Items such as office supplies, postage, local telephone costs, and memberships must normally be treated as indirect (F&A) costs.

Per university policy, "If these items are proposed as direct costs, they must be specifically identified in the sponsor's approved proposal budget and budget justification." A general purpose cost justification form is available if the item is not mentioned in the proposal and budget. The most recent proposal states that "two professional grade copy machines and two fax machines are available for use in the office. . . ." There was no mention in the proposal of the rental of the copy machines being charged to the grant. Also, no justification form was submitted and approved prior to costs being incurred.

Cause

Departmental bookkeepers, principal investigators, and grant accountants did not comply with federal requirements and university policy and did not properly monitor charges to these research and development grants.

Effect

Charging unallowable costs to federal programs could result in penalties from the grantor or loss of subsequent grant awards.

Recommendation

Management should ensure that departmental bookkeepers, principal investigators, and grant accountants have the knowledge and expertise to monitor and account for federal grant and contract awards in accordance with award agreements, federal regulations, and university policy. Although the risks noted in this finding were identified and assessed in management's risk assessment activities, management should reassess the design, implementation, and monitoring of controls to prevent noncompliance.

Management's Comment

We concur with the finding and recommendation. The unallowable expenditures were discussed with employees involved, and unallowable grant expenses were corrected.

Through its hiring and continuing education processes, the university works diligently to ensure that responsible employees, including bookkeepers, principal investigators, and grant accountants, have the knowledge and expertise to monitor and account for federal grant and contract awards in accordance with award agreements, federal regulations, and university policy. These particular compliance requirements will be emphasized in future compliance training. Also, the design, implementation, and monitoring of controls to prevent noncompliance for these risks is being reassessed and will be incorporated in each campus's upcoming risk assessments.

Finding Number	2015-072
CFDA Number	10.558, 10.559, 17.258, 17.259, 17.278, 20.509, 84.126, and 93.667
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Workforce Investment Act Cluster Formula Grants for Rural Areas Rehabilitation Services - Vocational Rehabilitation Grants to States Social Services Block Grant
Federal Agency	Department of Agriculture Department of Labor Department of Transportation Department of Education Department of Health and Human Services
State Agency	Department of Human Services Department of Labor and Workforce Development Department of Transportation
Grant/Contract No.	2012IN109945, 2013IN109945, 2014IN109945, and 2015IN109945, 2010IN109945, AA-21423-11-55-A-47, DI-22464-11-75-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, AA-25381-14-55-A-47, AA-26807-15-55-A-47, TN-18-X033, 04-CH-0804, H126A130063, H126A140063, G1301TNSOSR, G1401TNSOSR, and G1501TNSOSR
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	\$21,326 (10.558) \$92 (10.559) \$15,603 (17.258) \$12,886 (17.259) \$18,356 (17.278) \$2,645 (20.509) \$1,856 (84.126) \$241 (93.667)
Repeat Finding	2014-065

<u>Grant funds were again used for unallowable real property acquisition, resulting in federal questioned costs of $73,005</u>

<u>Condition</u>

As noted in the prior audit finding, Southwest Human Resource Agency (SWHRA)[73] continued to use federal funds received through the state's Human Services, Labor and Workforce Development, and Transportation departments to pay for the acquisition of its central office building, resulting in federal questioned costs of $73,005[74] for fiscal year 2015. A summary of the costs charged to the federal grant programs for principal and interest payments on the promissory note for the building is included in the following table.

Table 1
Southwest Human Resource Agency
Costs for Central Office Building Purchase Charged to Federal Grant Programs
For the Year Ended June 30, 2015

<table>
<tr><th>Federal Awarding Agency</th><th>State Awarding Agency (if applicable)</th><th>CFDA Number</th><th>Federal Program Name</th><th>Amount</th></tr>
<tr><td>U.S. Department of Labor</td><td>Tennessee Department of Labor and Workforce Development</td><td>17.258</td><td>WIA Adult Program</td><td>$15,603</td></tr>
<tr><td>U.S. Department of Labor</td><td>Tennessee Department of Labor and Workforce Development</td><td>17.259</td><td>WIA Youth Activities</td><td>12,886</td></tr>
<tr><td>U.S. Department of Labor</td><td>Tennessee Department of Labor and Workforce Development</td><td>17.278</td><td>WIA Dislocated Worker Formula Grants</td><td>18,356</td></tr>
<tr><td>U.S. Department of Transportation</td><td>Tennessee Department of Transportation</td><td>20.509</td><td>Formula Grants for Rural Areas</td><td>2,645</td></tr>
<tr><td>U.S. Department of Education</td><td>Tennessee Department of Human Services</td><td>84.126</td><td>Rehabilitation Services_Vocational Rehabilitation Grants to States</td><td rowspan="2">1,856</td></tr>
<tr><td>Not available</td><td>Southwest Tennessee Development District</td><td>Not available</td><td>Not available</td></tr>
</table>

[73] Southwest Human Resource Agency operates under the authority of Title 13, Chapter 26, *Tennessee Code Annotated*, which provides a regional system to deliver human resource programs to the state's counties and cities.
[74] OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program as well as instances where we become aware of known questioned costs that are greater than $10,000 for a program that is not audited as a major program. The federal questioned costs of $73,005 presented here are for those programs where questioned costs exceed $10,000. Although the questioned costs for several programs (i.e., Formula Grants for Rural Areas, Rehabilitation Services - Vocational Rehabilitation Grants to States, Social Services Block Grant, and Summer Food Service Program for Children) are less than $10,000 in this finding, additional questioned costs are noted in 2015-016 – 2015-020, 2015-022, 2015-028, 2015-030 – 2015-031, 2015-033, 2015-037, 2015-046, and 2015-065.

U.S. Department of Health and Human Services	Tennessee Department of Human Services	93.667	Social Services Block Grant	241
U.S. Department of Agriculture	Tennessee Department of Human Services	10.559	Summer Food Service Program for Children	92
U.S. Department of Agriculture	Tennessee Department of Human Services	10.558	Child and Adult Care Food Program	21,326*
				$73,005

* SWHRA charged $21,326 of building-related expenditures to activities funded by both the Head Start Program and the Child and Adult Care Food Program. Since the information provided by SWHRA did not include sufficient detail to determine how the expenditures were charged to the individual federal programs, the total building-related expenditures charged to the related activity codes are listed as questioned costs.

Criteria

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 439, states that capital expenditures for buildings are unallowable for state and local governments carrying out federal awards, except when they are approved in advance by the awarding agencies. Additional federal requirements state that building purchases are specifically prohibited for the Summer Food Service Program for Children,[75] the Social Services Block Grant,[76] and the Workforce Investment Act cluster.[77]

Cause

In our discussions with SWHRA's Executive Director during the prior audit, he stated that agency management intended to use grant funds from federal programs to service the debt when they decided to purchase the building in 2011 instead of continuing to rent it. The Executive Director indicated that he was unaware that this was an unallowable use of grant funds and stated that SWHRA did not seek prior approval from the federal or state agencies that awarded the grant funds.

Despite the prior audit finding, the departments of Labor and Workforce Development, Human Services, and Transportation continued to provide federal funds to SWHRA for the costs of its building during fiscal year 2015 for the following reasons:

- Department of Labor and Workforce Development management, who concurred in part with the prior finding, took no action in response to the building costs charged to the Workforce Investment Act cluster. The Assistant Administrators in the department's Workforce Service Division stated that they were waiting on the U.S. Department of Labor's final determination on the prior audit finding before assisting "SWHRA to obtain federal approval for an appropriate occupancy rate" (as stated in their comments on the prior audit finding) or taking any other action.

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[75] Food and Nutrition Service Instruction 796-4, Rev. 4.
[76] Title 42, *United States Code*, Section 1397(d)(a)(1).
[77] 20 CFR 667.260.

- In response to the prior audit finding, management for the Department of Human Services concurred in part. While the department has recouped the questioned costs noted in the prior audit finding for the Summer Food Service Program for Children, it has not done so for the Child and Adult Care Food Program.[78] Management stated in their comments on the prior audit finding that the department needed "clarification from State Audit on the dollar amount considered unallowable" for the Child and Adult Care Food Program since the "funds from the Head Start Program and The Child and Adult Care Food Program (CACFP) have been combined." As noted above, the information provided to us by SWHRA does not include specific details about how the expenditures for the agency's activities were charged to individual federal programs. It is the department's responsibility to obtain whatever additional documentation is necessary to determine the exact amount charged to the Child and Adult Care Food Program for the central office building.
- Department of Transportation management concurred with the prior audit finding, and SWHRA ceased billing the Formula Grants for Rural Areas program for its central office building as direct costs. The agency, however, continued to bill the federal program for the building acquisition costs that were included in its administrative cost pool. The $2,645 listed in the table above represents debt payments that were allocated to SWHRA's transportation program, billed to the Department of Transportation throughout fiscal year 2015 under the heading of "Indirect Cost" and reimbursed under the Formula Grants for Rural Areas program.

Effect

The use of grant funds for unallowable purposes increases the risk that federal funds are spent for purposes that are outside of the program's objectives.

Recommendation

The Commissioners of the Human Services, Labor and Workforce Development, and Transportation departments should ensure that unallowable costs are recovered from SWHRA and that the federal awarding agencies are properly reimbursed. The managements of these agencies should also take the necessary steps to ensure that subrecipients are aware of the allowable uses of grant funds and that subrecipients' expenditures are properly reviewed.

Management's Comments

Department of Human Services

We concur in part.

The Department sent a certified letter to the Executive Director of the Southwest Human Resources Agency (SWHRA) dated March 18, 2015, which explicitly stated that for SFSP, the

[78] There were no questioned costs for the department's Social Services Block Grant or the Rehabilitation Services – Vocational Rehabilitation Grants to States programs noted in the prior audit finding.

amount charged to the federal award was not an allowable cost for real property acquisition. The Department received a check from SWHRA for the unallowed costs on May 21 2015. The Department has been working with SWHRA to determine how much of the $21,313 noted in the prior audit finding was attributable to the Child and Adult Care Food Program. Once a determination is made, the Department will begin the recoupment process.

The Department agrees with the current questioned costs for the Social Services Block Grant (SSBG) of $241 and Summer Food Service Program for Children (SFSP) of $92 and will start the recoupment process for the questioned costs.

We do not agree with the questioned costs in the amounts of $1,856 and $21,326 as noted in Table 1 of the finding. The Department needs more information from the subrecipient and the applicable federal awarding agencies to determine the questioned costs and the related federal programs associated with these questioned costs. Once the unallowed amounts are determined, if any, the Department will work with the subrecipient and the applicable federal agency on the corrective action to be performed and, if applicable, the recoupment of the questioned costs.

Department of Labor and Workforce Development

We concur in part.

As part of resolving the prior audit finding, the department has submitted information to the U.S. Department of Labor (US DOL) on December 21, 2015. As of February 5, 2016, the department has not received an initial determination from the US DOL. Once a final determination is made by the US DOL, we will follow their guidance in resolving this issue.

Department of Transportation

The Division of Multimodal Transportation Resources (DMTR) concurs. DMTR has worked with SWHRA to determine the actual amount of federal funds to return to the Federal Transit Administration (FTA) for this finding, the prior year finding 2014-065, and amounts for previous years. The unallowable amount determined for 2015 is $2,948 rather than the finding amount of $2,645. The total federal refund amount determined for 2014 is $7,812 rather than the finding amount of $10,330. The total federal refund amount determined for all years, including 2014 and 2015, is $17,670. A portion of the refund has been returned to the FTA. The remaining amount of refund is in process of being returned.

Auditee's Section

Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Unclustered Programs				
Peace Corps				
Direct Programs				
University of Tennessee	Peace Corps-PC-12 -8-070 Wood	08 / PC-12-8-070		$ 21,896.15
Subtotal Peace Corps				$ 21,896.15
Department of Agriculture				
Direct Programs				
Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 1,048,630.67	
University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	10.025	244,288.09	$ 1,292,918.76
University of Tennessee	Federal-State Marketing Improvement Program	10.156		12,914.16
Agriculture	Specialty Crop Block Grant Program - Farm Bill	10.170		565,977.34
Agriculture	Organic Certification Cost Share Programs	10.171		20,772.29
University of Tennessee	Cooperative Forestry Research	10.202		890,843.48
University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		6,401,632.93
Tennessee State University	1890 Institution Capacity Building Grants	10.216		445,781.78
University of Tennessee	Higher Education - Institution Challenge Grants Program	10.217		47,677.68
University of Tennessee	Integrated Programs	10.303		248,198.94
Agriculture	Homeland Security_Agricultural	10.304		28,217.28
University of Tennessee	Organic Agriculture Research and Extension Initiative	10.307		472,053.71
University of Tennessee	Specialty Crop Research Initiative	10.309		325,994.92
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310		907,657.23
University of Tennessee	Crop Protection and Pest Management Competitive Grants Program	10.329		61,131.66
Tennessee Technological University	Rural Business Development Grant	10.351	$ 25,000.00	
University of Tennessee	Rural Business Development Grant	10.351	1,381.13	26,381.13
Tennessee State University	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443		96,003.77
Tennessee State University	Cooperative Extension Service	10.500	$ 3,185,936.38	
University of Tennessee	Cooperative Extension Service	10.500	12,279,150.32	15,465,086.70
Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		117,077,172.32
Human Services	Child and Adult Care Food Program	10.558		66,656,717.23
Agriculture	State Administrative Expenses for Child Nutrition	10.560	$ 886,103.23	
Education	State Administrative Expenses for Child Nutrition	10.560	2,831,590.00	
Human Services	State Administrative Expenses for Child Nutrition	10.560	1,289,586.50	5,007,279.73
Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572		78,585.47

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health	Senior Farmers Market Nutrition Program	10.576		514,966.32
Education	Child Nutrition Discretionary Grants Limited Availability	10.579		299,513.09
Education	Fresh Fruit and Vegetable Program	10.582		3,107,358.02
Education	Child Nutrition Direct Certification Performance Awards	10.589		251,978.00
Human Services	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants	10.598		4,264.84
Agriculture	Forestry Research	10.652		233,009.96
Agriculture	Cooperative Forestry Assistance	10.664		1,341,991.16
Agriculture	Urban and Community Forestry Program	10.675		337,660.34
Agriculture	Forest Legacy Program	10.676		41,220.25
Agriculture	Forest Stewardship Program	10.678		173,249.64
Agriculture	Forest Health Protection	10.680	$ 275,338.59	
University of Tennessee	Forest Health Protection	10.680	82,838.90	358,177.49
Dyersburg State Community College	Rural Business Enterprise Grants	10.769	$ 18,161.34	
Economic and Community Development	Rural Business Enterprise Grants	10.769	40,500.00	
Northeast State Community College	Rural Business Enterprise Grants	10.769	26,490.00	
Tennessee Technological University	Rural Business Enterprise Grants	10.769	7,999.00	
University of Tennessee	Rural Business Enterprise Grants	10.769	(8,681.05)	84,469.29
Tennessee State University	Norman E. Borlaug International Agricultural Science and Technology Fellowship	10.777		49,080.85
Columbia State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	$ 150,811.00	
East Tennessee State University	Distance Learning and Telemedicine Loans and Grants	10.855	36,556.20	187,367.20
University of Tennessee	Public Television Station Digital Transition Grant Program	10.861		170,554.09
University of Tennessee	Soil Survey	10.903		980.26
University of Tennessee	Environmental Quality Incentives Program	10.912		763,033.51
University of Tennessee	Grassland Reserve Program	10.920		3,718.14
Agriculture	Agricultural Statistics Reports	10.950		16,000.00
Tennessee State University	Scientific Cooperation and Research	10.961		23,261.78
Tennessee State University	2014 Farm Bill-Producer Education-Extension Services	10 / 58-0510-4-059 N		13,235.40
University of Tennessee	USDA FS Silviculture 2015-Clatterbuck	10 / SILVICULTURE 2015		119,610.00
University of Tennessee	USDA FSA EXT Svcs Farm Bill 2014-Smith	10 / 58-0510-4-060-N		59,889.70
Subtotal Direct Programs				$ 224,283,587.84
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1400281489	$ 869.70	
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1500343168	164.66	$ 1,034.36
University of Tennessee	Homeland Security_Agricultural	10.304 / UFDSP00010249		24,150.83
Passed Through University of Georgia				
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-1254940976	$ (2,349.76)	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-129/8644757	6,097.78	3,748.02
University of Tennessee	Cooperative Extension Service	10.500 / RE582-364/4942486	$ 7,197.27	
University of Tennessee	Cooperative Extension Service	10.500 / RE675-167/4940006	4,055.19	
University of Tennessee	Cooperative Extension Service	10.500 / RE675-171/4944716	4,346.13	15,598.59
Passed Through University of Kentucky Research Foundation				
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / 3048109597-13-034		20,410.00
Passed Through Alabama Agricultural and Mechanical University				
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2005-38820-16479	$ (44,646.32)	
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2013-38821-21103	24,320.29	(20,326.03)
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / 2012-2604-16		13,025.16
University of Tennessee	Environmental Quality Incentives Program	10.912 / 2012-1632-06		4,408.17
Passed Through Rutgers, The State University of New Jersey				
University of Tennessee	Organic Agriculture Research and Extension Initiative	10.307 / SUB 4828		34,050.43
Passed Through Brigham Young University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 12-0356		36,402.46
Passed Through University of Massachusetts				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 12-007055-D-00		41,057.99
Passed Through University of Maryland				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / Z552802		97,319.59
Passed Through Texas Agriculture Extension Services				
University of Tennessee	Crop Protection and Pest Management Competitive Grants Program	10.329 / 06-S150638		6,963.96
Passed Through Kentucky State University				
Tennessee State University	Commodity Partnerships for Small Agricultural Risk Management Education Sessions	10.459 / 12-IE-53102-091		13,011.87
Passed Through Kansas State University				
University of Tennessee	Cooperative Extension Service	10.500 / 4-H CLUB 2013	$ (780.95)	
University of Tennessee	Cooperative Extension Service	10.500 / S14076	17,585.72	
University of Tennessee	Cooperative Extension Service	10.500 / S15085	14,742.46	31,547.23

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Michigan State University				
University of Tennessee	Cooperative Extension Service	10.500 / RC103176R		22,783.47
Passed Through Mississippi State University				
University of Tennessee	Cooperative Extension Service	10.500 / 012100.340743.01		33,505.72
Passed Through The Pennsylvania State University				
University of Tennessee	Cooperative Extension Service	10.500 / 5140-UT-USDA-2628		5,252.51
Passed Through University of Arkansas				
University of Tennessee	Cooperative Extension Service	10.500 / 2009 FDP	$ 21,383.80	
University of Tennessee	Cooperative Extension Service	10.500 / 21663-03	6,611.70	
University of Tennessee	Cooperative Extension Service	10.500 / 21664-04	26,297.96	
University of Tennessee	Cooperative Extension Service	10.500 / 21664-08	27,320.63	81,614.09
Passed Through University of Minnesota				
Tennessee State University	Cooperative Extension Service	10.500 / 2014-41520-22191		44,324.61
Passed Through University of Missouri				
University of Tennessee	Cooperative Extension Service	10.500 / C00048589-4		8,994.81
Passed Through University of Nebraska				
University of Tennessee	Cooperative Extension Service	10.500 / 26-6365-0001-803		7,611.86
Passed Through Association of Public and Land-Grant Universities				
Tennessee State University	Agricultural Knowledge Initiative	10 / 17713		4,877.14
Subtotal Pass-Through Programs				$ 531,366.84
Subtotal Department of Agriculture				$ 224,814,954.68
Department of Commerce				
Direct Programs				
University of Tennessee	Economic Development_Support for Planning Organizations	11.302		$ 69,905.04
University of Tennessee	Economic Development_Technical Assistance	11.303		129,183.70
Safety and Homeland Security	State and Local Implementation Grant Program	11.549		538,501.86
University of Tennessee	Manufacturing Extension Partnership	11.611		1,710,111.87
Subtotal Direct Programs				$ 2,447,702.47
Passed Through Georgia Institute of Technology				
University of Tennessee	Manufacturing Extension Partnership	11.611 / T7819-G1		$ 49,987.90
Subtotal Pass-Through Programs				$ 49,987.90
Subtotal Department of Commerce				$ 2,497,690.37

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of Defense				
Direct Programs				
University of Tennessee	Procurement Technical Assistance For Business Firms	12.002		$ 335,904.49
Revenue	Payments to States in Lieu of Real Estate Taxes	12.112		1,604,796.14
Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		151,200.04
Military	National Guard Military Operations and Maintenance (O&M) Projects	12.401	$ 28,751,421.18	
Military	ARRA-National Guard Military Operations and Maintenance (O&M) Projects	12.401	(18,189.92)	28,733,231.26
University of Tennessee	Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556		63,803.21
University of Tennessee	Army Ft Campbell Mobilization '15-Griffy	12 / W91248-15-P-0001		208,550.93
Subtotal Direct Programs				$ 31,097,486.07
Passed Through Academy of Applied Science				
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / W911NF-10-2-0076		$ 1,870.40
Passed Through Defense Equal Opportunity Management Institute				
Austin Peay State University	Defense Equal Opportunity Climate Survey	12 / FA2521-06-P-0292		3,580.48
Passed Through Temple University				
University of Memphis	LASSO National STEM Camp	12 / PO213215		7,776.07
Subtotal Pass-Through Programs				$ 13,226.95
Subtotal Department of Defense				$ 31,110,713.02
Department of Housing and Urban Development				
Direct Programs				
Economic and Community Development	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	$ 66,112,821.42	
Tennessee Housing Development Agency	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	130,999.14	$ 66,243,820.56
Tennessee Housing Development Agency	Emergency Solutions Grant Program	14.231		2,512,299.25
Tennessee Housing Development Agency	Home Investment Partnerships Program	14.239		3,696,927.65
Health	Housing Opportunities for Persons with AIDS	14.241		902,465.64
University of Tennessee	Continuum of Care Program	14.267		131,277.07
Economic and Community Development	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269		235,023.52

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee Human Rights Commission	Fair Housing Assistance Program_ State and Local	14.401		384,093.00
Tennessee State University	Education and Outreach Initiatives	14.416		57,748.50
Tennessee State University	Historically Black Colleges and Universities Program	14.520		11,306.48
Tennessee Housing Development Agency	Family Self-Sufficiency Program	14.896		132,384.00
Environment and Conservation	Lead Hazard Reduction Demonstration Grant Program	14.905		564,142.93
Subtotal Direct Programs				$ 74,871,488.60
Passed Through Knox County				
University of Tennessee	Community Development Block Grants/Entitlement Grants	14.218 / FY 14-15		$ 10,000.00
Passed Through Metropolitan Development and Housing Agency				
Tennessee State University	Community Development Block Grants/Entitlement Grants	14.218 / B-13-MC-47-0007		54,113.57
Passed Through City of Knoxville				
University of Tennessee	Emergency Solutions Grant Program	14.231 / ESG 14-15		15,861.17
Passed Through City of Johnson City				
East Tennessee State University	Home Investment Partnerships Program	14.239 / UNKNOWN		16,928.75
Subtotal Pass-Through Programs				$ 96,903.49
Subtotal Department of Housing and Urban Development				$ 74,968,392.09
Department of the Interior				
Direct Programs				
Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program	15.252		$ 2,499,747.04
Environment and Conservation	Cooperative Endangered Species Conservation Fund	15.615	$ 74,837.70	
Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund	15.615	737,859.14	812,696.84
Tennessee Wildlife Resources Agency	Clean Vessel Act Program	15.616		244,567.59
Tennessee Wildlife Resources Agency	Enhanced Hunter Education and Safety Program	15.626		1,432,899.77
Agriculture	Partners for Fish and Wildlife	15.631	$ 65,947.35	
Tennessee Wildlife Resources Agency	Partners for Fish and Wildlife	15.631	3,109.98	69,057.33
Tennessee Wildlife Resources Agency	State Wildlife Grants	15.634		1,045,052.55
Tennessee Wildlife Resources Agency	Research Grants (Generic)	15.650		9,237.53
Environment and Conservation	Recovery Act Funds - Habitat Enhancement, Restoration and Improvement	15.656		3,529.49
Tennessee Wildlife Resources Agency	Cooperative Landscape Conservation	15.669		152,904.55

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Environment and Conservation	U.S. Geological Survey_ Research and Data Collection	15.808	$ 133,596.82	
University of Memphis	U.S. Geological Survey_ Research and Data Collection	15.808	19,372.31	152,969.13
Environment and Conservation	Historic Preservation Fund Grants-In-Aid	15.904	$ 689,830.73	
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904	526,182.82	1,216,013.55
Environment and Conservation	Outdoor Recreation_Acquisition, Development and Planning	15.916		295,827.49
Tennessee State Museum	Save America's Treasures	15.929		8,825.12
University of Tennessee	FWS 2015 Tennessee NWR Complex - Pelren	15 / UNKNOWN		10,269.64
Subtotal Direct Programs				$ 7,953,597.62
Passed Through Alabama Historical Commission				
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904 / AL-13-025		$ 849.65
Subtotal Pass-Through Programs				$ 849.65
Subtotal Department of the Interior				$ 7,954,447.27

Department of Justice

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Finance and Administration	Sexual Assault Services Formula Program	16.017		$ 288,060.16
Alcoholic Beverage Commission	Joint Law Enforcement Operations (JLEO)	16.111		18,308.14
Commission on Children and Youth	Juvenile Accountability Block Grants	16.523		274,361.53
University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		7,446.35
Commission on Children and Youth	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540		369,360.79
Commission on Children and Youth	Title V_Delinquency Prevention Program	16.548		7,872.78
Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers	16.550		39,858.42
Finance and Administration	National Criminal History Improvement Program (NCHIP)	16.554		292,882.76
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		46,200.00
University of Tennessee	Criminal Justice Research and Development_Graduate Research Fellowships	16.562		4,377.94
Finance and Administration	Crime Victim Assistance	16.575		7,789,548.91
Treasury	Crime Victim Compensation	16.576		4,408,000.00
University of Tennessee	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		563,314.90
Mental Health and Substance Abuse Services	Drug Court Discretionary Grant Program	16.585		292,782.37
Finance and Administration	Violence Against Women Formula Grants	16.588		2,081,301.56

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Finance and Administration	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		300,454.45
Finance and Administration	Residential Substance Abuse Treatment for State Prisoners	16.593		190,096.84
Tennessee Bureau of Investigation	Regional Information Sharing Systems	16.610		3,742,451.90
Tennessee Bureau of Investigation	Public Safety Partnership and Community Policing Grants	16.710		637,602.76
Commission on Children and Youth	Enforcing Underage Drinking Laws Program	16.727		20,352.09
Children's Services	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735	$ 124,938.01	
Commission on Children and Youth	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735	15,150.00	140,088.01
Finance and Administration	Edward Byrne Memorial Justice Assistance Grant Program	16.738		5,196,335.57
Tennessee Bureau of Investigation	DNA Backlog Reduction Program	16.741		1,704,400.49
Finance and Administration	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		28,237.02
Tennessee Bureau of Investigation	Support for Adam Walsh Act Implementation Grant Program	16.750		2,036.29
University of Memphis	Edward Byrne Memorial Competitive Grant Program	16.751		129,599.88
Middle Tennessee State University	Congressionally Recommended Awards	16.753		16,743.30
Mental Health and Substance Abuse Services	Second Chance Act Prisoner Reentry Initiative	16.812		(560,444.47)
District Attorneys General Conference	Equitable Sharing Program	16.922	$ 311.91	
Military	Equitable Sharing Program	16.922	26,322.56	
Revenue	Equitable Sharing Program	16.922	4,494.04	
Safety and Homeland Security	Equitable Sharing Program	16.922	350,027.07	381,155.58
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2014-115	$ 595,189.36	
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2014-117	261,051.60	856,240.96
Tennessee Bureau of Investigation	TBI Asset Forfeiture	16 / UNKNOWN		263,550.52
Subtotal Direct Programs				$ 29,532,577.80
Passed Through Knoxville Police Department				
University of Tennessee	Project Safe Neighborhoods	16.609 / C-15-0164		$ 26,543.43
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / C-14-0089		2,134.99
Passed Through National 4-H Council				
University of Tennessee	Juvenile Mentoring Program	16.726 / ADVANCED ACCOUNT	$ 35,338.21	
University of Tennessee	Juvenile Mentoring Program	16.726 / MENTORING 2014-2015	85,985.18	121,323.39
Passed Through Shelby County Government				
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / S006176	$ 1,137.24	
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / S008136	13,178.79	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / S008780	45,934.02	60,250.05
Passed Through City of Memphis Police Department				
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / 2011-DJ-BX-3445	$ 2,951.83	
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / 2012-DJ-BX-0077	12,269.20	
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / 2013-DJ-BX-0333	37,650.73	52,871.76
Subtotal Pass-Through Programs				$ 263,123.62
Subtotal Department of Justice				$ 29,795,701.42

Department of Labor

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Labor and Workforce Development	Labor Force Statistics	17.002		$ 1,015,676.75
Labor and Workforce Development	Compensation and Working Conditions	17.005		128,578.31
Labor and Workforce Development	Unemployment Insurance	17.225	$ 330,066,566.94	
Labor and Workforce Development	ARRA-Unemployment Insurance	17.225	(627,049.73)	329,439,517.21
Labor and Workforce Development	Senior Community Service Employment Program	17.235		1,718,145.92
Labor and Workforce Development	Trade Adjustment Assistance	17.245		4,342,845.13
Labor and Workforce Development	Incentive Grants - WIA Section 503	17.267		474,934.75
Pellissippi State Community College	H-1B Job Training Grants	17.268	$ 205,527.86	
Roane State Community College	H-1B Job Training Grants	17.268	199,649.42	405,177.28
Labor and Workforce Development	Work Opportunity Tax Credit Program (WOTC)	17.271		783,343.60
Labor and Workforce Development	Temporary Labor Certification for Foreign Workers	17.273		230,896.92
Roane State Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	$ 272,797.51	
Southwest Tennessee Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	188,572.37	461,369.88
Southwest Tennessee Community College	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	17.276		223,704.44
Chattanooga State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	$ 741,293.61	
Motlow State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	542,466.94	
Northeast State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	728,985.29	
Pellissippi State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	1,616,726.64	
Roane State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	3,351,159.63	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Southwest Tennessee Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	1,542,458.71	8,523,090.82
Labor and Workforce Development	Occupational Safety and Health_State Program	17.503		3,766,632.93
Labor and Workforce Development	Consultation Agreements	17.504		1,080,204.42
Labor and Workforce Development	Mine Health and Safety Grants	17.600		107,351.86
Pellissippi State Community College	Disability Employment Policy Development	17.720		269,050.15
Subtotal Direct Programs				$ 352,970,520.37
Passed Through East Tennessee Human Resource Agency				
Roane State Community College	WIA Dislocated Workers	17.260 / WIA-SC-TCAT Oneida		$ 10,201.42
Passed Through Memphis Bioworks Foundation				
Jackson State Community College	H-1B Job Training Grants	17.268 / HG-22604-12-60-A-47		56,045.84
Passed Through Greater Memphis Alliance for a Competitive Workforce				
Southwest Tennessee Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / TC-26495-14-60-12-STCC		63,988.00
Passed Through Henry Ford Community College				
Motlow State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / SGA/DFA PY 11-08	$ 171,718.70	
Pellissippi State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / PO#B0004798	273,885.64	445,604.34
Subtotal Pass-Through Programs				$ 575,839.60
Subtotal Department of Labor				$ 353,546,359.97
Department of State				
Direct Programs				
University of Tennessee	Global Threat Reduction	19.033		$ 648,829.83
University of Tennessee	Counter Narcotics	19.704		191,613.50
Subtotal Direct Programs				$ 840,443.33
Passed Through Kirkwood Community College				
Roane State Community College	Academic Exchange Programs - Undergraduate Programs	19.009 / RSC94660-67024		$ (707.03)
Subtotal Pass-Through Programs				$ (707.03)
Subtotal Department of State				$ 839,736.30
Department of Transportation				
Direct Programs				
Transportation	Airport Improvement Program	20.106		$ 15,924,826.78

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Safety and Homeland Security	National Motor Carrier Safety	20.218		5,659,682.78
Safety and Homeland Security	Commercial Driver's License Program Improvement Grant	20.232		693,741.92
Transportation	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		570,429.85
Transportation	Formula Grants for Rural Areas	20.509		17,056,075.73
Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		1,895,444.61
Transportation	Clean Fuels	20.519		236,080.80
Transportation	Alcohol Open Container Requirements	20.607		17,797,428.15
Safety and Homeland Security	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		107,868.27
Tennessee Regulatory Authority	Pipeline Safety Program State Base Grant	20.700		598,092.60
Military	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		315,334.17
Subtotal Department of Transportation				$ 60,855,005.66

Department of the Treasury

Passed Through Neighborhood Reinvestment Corporation

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee Housing Development Agency	National Foreclosure Mitigation Counseling (NFMC) Program	21 / PL113-76X1350		$ 540,682.17
Subtotal Department of the Treasury				$ 540,682.17

Appalachian Regional Commission

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	Appalachian Area Development	23.002	$ 22,605.00	
Economic and Community Development	Appalachian Area Development	23.002	40,500.00	
University of Tennessee	Appalachian Area Development	23.002	73,407.99	$ 136,512.99
Northeast State Community College	Appalachian Local Development District Assistance	23.009		3,759.00
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	$ 106,318.14	
Economic and Community Development	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	129,145.79	
University of Tennessee	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	49,685.59	285,149.52
Subtotal Appalachian Regional Commission				$ 425,421.51

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Equal Employment Opportunity Commission				
Direct Programs				
Tennessee Human Rights Commission	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	30.002		$ 188,300.00
Subtotal Equal Employment Opportunity Commission				$ 188,300.00
General Services Administration				
Direct Programs				
General Services	Donation of Federal Surplus Personal Property (Noncash Award)	39.003		$ 4,723,533.39
Secretary of State	Election Reform Payments	39.011		427,928.85
Subtotal General Services Administration				$ 5,151,462.24
Library of Congress				
Direct Programs				
Middle Tennessee State University	Teaching with Primary Sources	42 / GA08C0077		$ 127,475.51
Subtotal Library of Congress				$ 127,475.51
National Aeronautics and Space Administration				
Direct Programs				
University of Tennessee	Science	43.001		$ 50,626.96
Tennessee State University	NASA Science Engineering Mathematics Aerospace Academy (SEMAA)	43 / NAS3-02123-STSU		147,902.40
Subtotal Direct Programs				$ 198,529.36
Passed Through Vanderbilt University				
East Tennessee State University	Science	43.001 / 21603-S13		$ 7,500.00
Columbia State Community College	Education	43.008 / NNH14ZHA003C	$ 13,242.21	
Northeast State Community College	Education	43.008 / 2812-018483	871.97	
Pellissippi State Community College	Education	43.008 / 2813-018493	11,401.40	
Roane State Community College	Education	43.008 / NNX14AR53A	4,951.71	30,467.29
Tennessee State University	Tennessee Space Grant College and Fellowship Program	43 / NNX10AM45H		3,645.82
Passed Through Mathematical Sciences Research Institute				
University of Tennessee	Math Sci & Research Inst (MSRI) Lenhart	43 / MOU-MEMO OF UNDERSTA		(1,958.60)
Subtotal Pass-Through Programs				$ 39,654.51
Subtotal National Aeronautics and Space Administration				$ 238,183.87

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
National Endowment for the Arts				
Direct Programs				
East Tennessee State University	Promotion of the Arts_Grants to Organizations and Individuals	45.024	$ 24,933.00	
University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals	45.024	17,749.90	$ 42,682.90
Tennessee Arts Commission	Promotion of the Arts_Partnership Agreements	45.025		757,600.00
Subtotal Direct Programs				$ 800,282.90
Passed Through South Arts, Incorporated				
Tennessee Arts Commission	Promotion of the Arts_Partnership Agreements	45.025 / UNKNOWN		$ 2,637.15
Subtotal Pass-Through Programs				$ 2,637.15
Subtotal National Endowment for the Arts				$ 802,920.05
National Endowment for the Humanities				
Direct Programs				
University of Tennessee	Promotion of the Humanities_ Division of Preservation and Access	45.149		$ 167,790.19
University of Tennessee	Promotion of the Humanities_ Fellowships and Stipends	45.160		50,400.00
University of Tennessee	Promotion of the Humanities_ Professional Development	45.163		113,846.13
Subtotal National Endowment for the Humanities				$ 332,036.32
Institute of Museum and Library Services				
Direct Programs				
Secretary of State	Grants to States	45.310		$ 3,240,614.64
University of Tennessee	National Leadership Grants	45.312		1,360.00
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		307,924.91
Subtotal Direct Programs				$ 3,549,899.55
Passed Through Drexel University				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / 219067-UTK		$ 25,687.84
Subtotal Pass-Through Programs				$ 25,687.84
Subtotal Institute of Museum and Library Services				$ 3,575,587.39
National Science Foundation				
Direct Programs				
Austin Peay State University	Computer and Information Science and Engineering	47.070		$ 128,519.71

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
East Tennessee State University	Education and Human Resources	47.076	$	86,817.43		
Jackson State Community College	Education and Human Resources	47.076		8,778.30		
Middle Tennessee State University	Education and Human Resources	47.076		572,044.05		
Tennessee State University	Education and Human Resources	47.076		101,235.51		768,875.29
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	$	45,237.89		
University of Memphis	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082		105,705.86		150,943.75
Subtotal Direct Programs					$	1,048,338.75
Passed Through American Physical Society						
East Tennessee State University	Mathematical and Physical Sciences	47.049 / PT-007-2015	$	1,159.00		
Middle Tennessee State University	Mathematical and Physical Sciences	47.049 / PHY-0808790		5,823.32	$	6,982.32
Passed Through Vanderbilt University						
Chattanooga State Community College	Computer and Information Science and Engineering	47.070 / 2019-015199				10,067.11
Passed Through EdLab Group Foundation						
Middle Tennessee State University	Education and Human Resources	47.076 / EQ2012-39	$	2,114.44		
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-0631789		4,870.60		
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-1103073		674.48		7,659.52
Passed Through Indian River State College						
Chattanooga State Community College	Education and Human Resources	47.076 / RCNET CSCC 0003	$	5,067.18		
Chattanooga State Community College	Education and Human Resources	47.076 / RCNET CSCC 0004		38,507.69		43,574.87
Passed Through Madisonville Community College						
Jackson State Community College	Education and Human Resources	47.076 / DUE-1204975				53,854.59
Passed Through University of Tulsa						
Jackson State Community College	Education and Human Resources	47.076 / DUE-0856482				21,547.07
Subtotal Pass-Through Programs					$	143,685.48
Subtotal National Science Foundation					$	1,192,024.23
Small Business Administration						
Direct Programs						
Middle Tennessee State University	Small Business Development Centers	59.037			$	944,308.42
Subtotal Small Business Administration					$	944,308.42
Tennessee Valley Authority						
Direct Programs						
Pellissippi State Community College	Tennessee Valley Region_Economic Development	62.004			$	13,421.90

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Military	Tennessee Valley Authority Emergency Preparedness	62 / 99997954	$ 421,975.34	
Military	Tennessee Valley Authority Emergency Preparedness	62 / FY2015-2019 TVA AWARD	1,147,870.64	1,569,845.98
University of Tennessee	TVA Diversity Alliance - Ridley	62 / A13-0413-001	$ 2,603.99	
University of Tennessee	TVA Diversity Alliance - Ridley	62 / UNKNOWN	5,914.82	8,518.81
University of Tennessee	TVA-8500020705-Patterson	62 / 8500020705		65,708.86
University of Tennessee	TVA-McClung Museum-Baumann	62 / PO # 826939-1		83,514.81
University of Tennessee	TVA-Solar Farm 8500021516-Patterson	62 / 8500021516		436,589.63
Subtotal Tennessee Valley Authority				$ 2,177,599.99

Department of Veterans Affairs

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Tennessee State Veterans' Homes Board	Grants to States for Construction of State Home Facilities	64.005	$ 8,023,309.80
Commission on Aging and Disability	Veterans Medical Care Benefits	64.009	241,794.83
Tennessee State Veterans' Homes Board	Veterans State Nursing Home Care	64.015	19,259,906.82
East Tennessee State University	Veterans Home Based Primary Care	64.022	124,124.77
Veterans Affairs	Burial Expenses Allowance for Veterans	64.101	1,216,948.00
Tennessee Higher Education Commission	All-Volunteer Force Educational Assistance	64.124	397,425.03
Tennessee Technological University	Educational Assistance Annual Reporting Fees	64 / ANNUAL REPORTING FEES	4,396.88
Subtotal Direct Programs			$ 29,267,906.13

Passed Through Volunteers of America

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
University of Tennessee	VA Supportive Services for Veteran Families Program	64.033 / SSVF	$ 3,223.26
University of Tennessee	Volunteers of America VOA SSVF Patterson	64 / VOA SSVF EVALUATION	3,432.57
Subtotal Pass-Through Programs			$ 6,655.83
Subtotal Department of Veterans Affairs			$ 29,274,561.96

Environmental Protection Agency

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Environment and Conservation	Air Pollution Control Program Support	66.001	$ 1,567,233.98
Environment and Conservation	State Indoor Radon Grants	66.032	284,034.02
Environment and Conservation	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	60,187.70
Environment and Conservation	State Clean Diesel Grant Program	66.040	50,000.00
Environment and Conservation	Water Pollution Control State, Interstate, and Tribal Program Support	66.419	2,515,157.43
Environment and Conservation	State Public Water System Supervision	66.432	1,316,660.67

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Environment and Conservation	Water Quality Management Planning	66.454		241,951.12
Agriculture	Nonpoint Source Implementation Grants	66.460		3,667,073.81
Environment and Conservation	Regional Wetland Program Development Grants	66.461		124,889.95
Environment and Conservation	Water Protection Grants to the States	66.474		76,372.78
Agriculture	Performance Partnership Grants	66.605		840,363.64
Environment and Conservation	Environmental Information Exchange Network Grant Program and Related Assistance	66.608		88,282.27
Environment and Conservation	Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		249,712.27
Environment and Conservation	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		420,727.23
Environment and Conservation	Pollution Prevention Grants Program	66.708		55,761.38
Environment and Conservation	Hazardous Waste Management State Program Support	66.801		2,371,255.83
Environment and Conservation	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		1,146,792.51
Environment and Conservation	Underground Storage Tank Prevention, Detection and Compliance Program	66.804		1,029,194.58
Environment and Conservation	Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		623,609.63
Environment and Conservation	Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		93,655.25
Environment and Conservation	State and Tribal Response Program Grants	66.817		62,380.83
Subtotal Direct Programs				$ 16,885,296.88
Passed Through Knox County Soil Conservation District				
University of Tennessee	Nonpoint Source Implementation Grants	66.460 / EFFECTIVE 9/23/2013		$ 5,605.25
Passed Through Auburn University				
University of Tennessee	Lake Champlain Basin Program	66.481 / 13-ACES-375474-UT		23,697.11
Subtotal Pass-Through Programs				$ 29,302.36
Subtotal Environmental Protection Agency				$ 16,914,599.24

Nuclear Regulatory Commission

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		$ 112,250.00
Chattanooga State Community College	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	$ 54,409.44	
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	76,750.00	131,159.44
Subtotal Nuclear Regulatory Commission				$ 243,409.44

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of Energy				
Direct Programs				
Environment and Conservation	State Energy Program	81.041		$ 944,547.47
Tennessee Housing Development Agency	Weatherization Assistance for Low-Income Persons	81.042		1,287,189.34
Roane State Community College	Office of Science Financial Assistance Program	81.049	$ 10,429.91	
University of Tennessee	Office of Science Financial Assistance Program	81.049	37,210.27	47,640.18
University of Tennessee	ARRA-Conservation Research and Development	81.086		81,017.34
Tennessee State University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	$ 365,529.59	
Tennessee Technological University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	284,050.22	649,579.81
Environment and Conservation	Long-Term Surveillance and Maintenance	81.136		2,938,396.56
Environment and Conservation	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214	$ 1,948,203.11	
Military	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214	981,496.09	2,929,699.20
Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area	81 / REORDOER-3-97-0702		199,008.82
Subtotal Direct Programs				$ 9,077,078.72
Passed Through Argonne National Laboratory				
University of Tennessee	Argonne Natl Lab-Workshops-IESP-Dongarra	81 / 9F-31202		$ 19,001.34
Passed Through Battelle Memorial Institute				
University of Tennessee	Battelle Memorial Inst PNNL217110 French	81 / 217110		39,617.23
Subtotal Pass-Through Programs				$ 58,618.57
Subtotal Department of Energy				$ 9,135,697.29
Department of Education				
Direct Programs				
Labor and Workforce Development	Adult Education - Basic Grants to States	84.002		$ 11,927,255.51
Education	Title I Grants to Local Educational Agencies	84.010		278,979,085.87
Education	Migrant Education_State Grant Program	84.011		622,236.84

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Education	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		486,693.17
Cleveland State Community College	Higher Education_Institutional Aid	84.031	$ 374,050.66	
Dyersburg State Community College	Higher Education_Institutional Aid	84.031	253,165.97	
Nashville State Community College	Higher Education_Institutional Aid	84.031	1,645.96	
Northeast State Community College	Higher Education_Institutional Aid	84.031	60,500.00	
Southwest Tennessee Community College	Higher Education_Institutional Aid	84.031	68,439.11	
Tennessee State University	Higher Education_Institutional Aid	84.031	7,655,440.31	
University of Tennessee	Higher Education_Institutional Aid	84.031	158,481.06	8,571,723.07
Tennessee Student Assistance Corporation	Federal Family Education Loans	84.032		123,754,737.19
Education	Career and Technical Education - Basic Grants to States	84.048	$ 27,127,738.20	
Roane State Community College	Career and Technical Education - Basic Grants to States	84.048	191,995.92	27,319,734.12
East Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116		45,681.64
Human Services	Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		53,019,259.67
University of Memphis	Rehabilitation Long-Term Training	84.129	$ 102,728.07	
University of Tennessee	Rehabilitation Long-Term Training	84.129	150,795.63	253,523.70
Education	Migrant Education_Coordination Program	84.144		60,481.49
Human Services	Independent Living_State Grants	84.169		340,208.09
Human Services	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177		729,614.43
Education	Special Education-Grants for Infants and Families	84.181		8,487,077.18
Education	Safe and Drug-Free Schools and Communities_National Programs	84.184		4,680,126.64
Human Services	Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		467,780.00
University of Tennessee	Adult Education_National Leadership Activities	84.191		389,859.64
Education	Education for Homeless Children and Youth	84.196		1,826,999.12
Middle Tennessee State University	Graduate Assistance in Areas of National Need	84.200	$ 116,328.25	
University of Tennessee	Graduate Assistance in Areas of National Need	84.200	269,039.80	385,368.05
Education	Fund for the Improvement of Education	84.215		54,133.88
Human Services	Assistive Technology	84.224		491,612.89
Human Services	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265		75,059.42
Education	Charter Schools	84.282		2,482,809.83
Education	Twenty-First Century Community Learning Centers	84.287		30,513,158.61
Education	Special Education - State Personnel Development	84.323		292,792.84
University of Memphis	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	$ 188,211.07	
University of Tennessee	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	359,929.06	548,140.13

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Education	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		635,543.00
Tennessee Higher Education Commission	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	$ 4,277,211.28	
University of Tennessee	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	672,488.40	4,949,699.68
University of Tennessee	Teacher Quality Partnership Grants	84.336		133,269.17
Education	Transition to Teaching	84.350		100.00
Tennessee Arts Commission	Arts in Education	84.351		4,292.00
Education	Rural Education	84.358		4,596,773.03
Education	English Language Acquisition State Grants	84.365	$ 6,660,371.03	
University of Tennessee	English Language Acquisition State Grants	84.365	393,058.28	7,053,429.31
Education	Mathematics and Science Partnerships	84.366		6,187,831.47
Education	Improving Teacher Quality State Grants	84.367	$ 39,583,326.74	
Tennessee Higher Education Commission	Improving Teacher Quality State Grants	84.367	953,589.47	40,536,916.21
Education	Grants for State Assessments and Related Activities	84.369		4,549,971.55
Education	Teacher Incentive Fund	84.374		7,997,766.77
Tennessee Higher Education Commission	College Access Challenge Grant Program	84.378		540,533.42
Southwest Tennessee Community College	Strengthening Minority-Serving Institutions	84.382		590,612.41
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395		61,987,250.07
Education	NCES Task Order Contract: National Assessment of Educational Progress	84 / ED-03-CO-0091		125,718.49
Subtotal Direct Programs				$ 696,694,859.60
Passed Through State of Oregon				
University of Tennessee	Adult Education - Basic Grants to States	84.002 / IGA0356		$ 58,280.29
Passed Through Hamilton County Department of Education				
Chattanooga State Community College	Title I Grants to Local Educational Agencies	84.010 / P42625		169,988.73
University of Tennessee	Twenty-First Century Community Learning Centers	84.287 / PO P46238		8,241.57
Passed Through California State University, Northridge				
University of Tennessee	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326 / F11-2963-3-UTK		384,335.86
Passed Through University of Louisiana at Monroe				
University of Tennessee	Transition to Teaching	84.350 / P0011459	$ 20,928.63	
University of Tennessee	Transition to Teaching	84.350 / TEACH PROJECT	3,892.86	24,821.49

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through National Writing Project Corporation				
University of Tennessee	High School Graduation Initiative	84.360 / 94-TN02-SEED2012		7,135.14
Middle Tennessee State University	Improving Teacher Quality State Grants	84.367 / 05-TN03-SEED2012	$ 12,524.04	
Tennessee Technological University	Improving Teacher Quality State Grants	84.367 / 08-TN04-SEED2014	2,571.51	
University of Tennessee	Improving Teacher Quality State Grants	84.367 / 94-TN02-SEED2012	631.32	15,726.87
Middle Tennessee State University	Investing in Innovation (i3) Fund	84.411 / 05-TN03-I32013	$ 12,185.73	
Middle Tennessee State University	Investing in Innovation (i3) Fund	84.411 / 05-TN03-I32013	105,911.08	
Middle Tennessee State University	Investing in Innovation (i3) Fund	84.411 / 05-TN03-I3DP2015	22,811.49	140,908.30
University of Tennessee	National Writing Project	84 / 94-TN02		1,270.53
Passed Through Hawkins County Schools				
East Tennessee State University	Mathematics and Science Partnerships	84.366 / 33103-02115		74,133.19
Passed Through McNairy County Board of Education				
Middle Tennessee State University	Mathematics and Science Partnerships	84.366 / UNKNOWN		19,134.95
Passed Through Tipton County Schools				
University of Memphis	Mathematics and Science Partnerships	84.366 / Windsor S3004		26,850.00
Passed Through Alliance for Business and Training, Incorporated				
Northeast State Community College	College Access Challenge Grant Program	84.378 / CAGC-GR1134839		3,204.10
Passed Through Battelle, Limited Liability Company				
East Tennessee State University	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 326365		1,900.95
Passed Through Metropolitan Nashville Public Schools				
Middle Tennessee State University	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 2-213324-07		0.47
Passed Through Tennessee College Access and Success Network				
Pellissippi State Community College	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / GR1338950		1,096.45
Passed Through New Schools for New Orleans				
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	84.396 / U396B100118		807,103.41
Passed Through National Board for Professional Teaching Standards				
Tennessee State University	Investing in Innovation (i3) Fund	84.411 / U411P120508		31,948.22

State of Tennessee
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For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through Battelle Memorial Institute				
University of Memphis	Innovative Educators Workshop	84 / US024-0000100017		11,500.00
Subtotal Pass-Through Programs			$	1,787,580.52
Subtotal Department of Education			$	698,482,440.12
National Archives and Records Administration				
Direct Programs				
Secretary of State	National Historical Publications and Records Grants	89.003	$	40,096.51
Subtotal National Archives and Records Administration			$	40,096.51
Delta Regional Authority				
Direct Programs				
Dyersburg State Community College	Delta Regional Development	90.200	$	57,500.52
Subtotal Delta Regional Authority			$	57,500.52
U.S. Election Assistance Commission				
Direct Programs				
Secretary of State	Help America Vote Act Requirements Payments	90.401	$	(32,402.26)
Subtotal U.S. Election Assistance Commission			$	(32,402.26)
Department of Health and Human Services				
Direct Programs				
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	$	80,534.66
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		338,800.00
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		307,000.00
Commission on Aging and Disability	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048		189,174.80
Commission on Aging and Disability	National Family Caregiver Support, Title III, Part E	93.052		2,575,400.00
Health	Public Health Emergency Preparedness	93.069		10,467,412.81
Health	Environmental Public Health and Emergency Response	93.070		474,512.35
Commission on Aging and Disability	Medicare Enrollment Assistance Program	93.071		545,371.93

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Commission on Aging and Disability	Lifespan Respite Care Program	93.072		32,374.86
Health	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		134,723.37
University of Tennessee	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		890,486.37
Mental Health and Substance Abuse Services	Enhance Safety of Children Affected by Substance Abuse	93.087		988,310.15
Children's Services	Guardianship Assistance	93.090		5,445,557.29
Children's Services	Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		908,544.39
Agriculture	Food and Drug Administration_ Research	93.103	$ 338,726.70	
Health	Food and Drug Administration_ Research	93.103	62,747.22	
University of Tennessee	Food and Drug Administration_ Research	93.103	1,363,631.58	1,765,105.50
Mental Health and Substance Abuse Services	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		2,138,136.14
Health	Maternal and Child Health Federal Consolidated Programs	93.110	$ 626,851.57	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110	198,705.53	825,557.10
Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		833,963.20
University of Tennessee	Oral Diseases and Disorders Research	93.121		50,415.61
University of Tennessee	Nurse Anesthetist Traineeships	93.124		46,349.15
Health	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		211,936.71
Health	Injury Prevention and Control Research and State and Community Based Programs	93.136		908,365.71
Mental Health and Substance Abuse Services	Projects for Assistance in Transition from Homelessness (PATH)	93.150		882,576.23
University of Tennessee	Centers of Excellence	93.157		(33,646.56)
Health	Grants to States for Loan Repayment Program	93.165		443,084.22
University of Tennessee	Nursing Workforce Diversity	93.178		228,031.19
Health	Surveillance of Hazardous Substance Emergency Events	93.204		(1,323.39)
Health	Family Planning_Services	93.217		5,340,936.13
Health	Traumatic Brain Injury State Demonstration Grant Program	93.234		198,255.77
Health	Affordable Care Act (ACA) Abstinence Education Program	93.235		1,044,878.16
Health	Grants to States to Support Oral Health Workforce Activities	93.236		258,802.18
Health	State Capacity Building	93.240		272,391.95
Health	State Rural Hospital Flexibility Program	93.241		398,911.06
Administrative Office of the Courts	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	$ 347,484.53	
Education	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	53,950.92	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	560,108.01	
Mental Health and Substance Abuse Services	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	10,417,101.57	
University of Tennessee	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1,257,316.53	12,635,961.56
East Tennessee State University	Advanced Nursing Education Grant Program	93.247	$ 393,750.52	
University of Tennessee	Advanced Nursing Education Grant Program	93.247	2,097,119.40	2,490,869.92
Health	Universal Newborn Hearing Screening	93.251		196,179.37
Health	Immunization Cooperative Agreements	93.268	$ 4,362,242.20	
Health	Immunization Cooperative Agreements (Noncash Award)	93.268	72,754,650.03	77,116,892.23
Health	Adult Viral Hepatitis Prevention and Control	93.270		70,867.66
Health	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		5,463,452.15
Health	Small Rural Hospital Improvement Grant Program	93.301		214,306.40
Health	National State Based Tobacco Control Programs	93.305		186,219.10
Health	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314		126,431.04
Health	Emerging Infections Programs	93.317		63,772.75
University of Tennessee	Outreach Programs to Reduce the Prevalence of Obesity in High Risk Rural Areas	93.319		484,324.43
Health	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323		1,115,392.33
Commission on Aging and Disability	State Health Insurance Assistance Program	93.324		1,085,454.79
Health	Behavioral Risk Factor Surveillance System	93.336		27,495.31
University of Tennessee	Advanced Education Nursing Traineeships	93.358		282,268.00
East Tennessee State University	Nurse Education, Practice Quality and Retention Grants	93.359	$ 319,681.24	
University of Tennessee	Nurse Education, Practice Quality and Retention Grants	93.359	1,479,909.66	1,799,590.90
University of Tennessee	Nursing Research	93.361		37.00
East Tennessee State University	Cancer Research Manpower	93.398		115,253.05
Health	Pregnancy Assistance Fund Program	93.500		402,183.27
Health	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		9,373,500.39
Health	PPHF National Public Health Improvement Initiative	93.507		589,717.05
Commerce and Insurance	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		75,460.00
East Tennessee State University	ARRA-Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative	93.513		485,352.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	Affordable Care Act (ACA) Public Health Training Centers Program	93.516		56,769.46
Health	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	93.521		2,049,424.55
East Tennessee State University	Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526		70,483.45
Health	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544		674.92
Children's Services	Promoting Safe and Stable Families	93.556		8,838,093.28
Human Services	Child Support Enforcement	93.563		35,584,326.59
Human Services	Child Support Enforcement Research	93.564		193,557.57
Human Services	Low-Income Home Energy Assistance	93.568	$ (388.73)	
Tennessee Housing Development Agency	Low-Income Home Energy Assistance	93.568	59,537,891.89	59,537,503.16
Human Services	Community Services Block Grant	93.569		11,548,444.20
Administrative Office of the Courts	State Court Improvement Program	93.586		555,359.16
Children's Services	Community-Based Child Abuse Prevention Grants	93.590		754,487.00
Human Services	Grants to States for Access and Visitation Programs	93.597		158,764.15
Children's Services	Chafee Education and Training Vouchers Program (ETV)	93.599		792,158.89
Education	Head Start	93.600	$ 207,186.74	
Tennessee State University	Head Start	93.600	1,995,328.58	2,202,515.32
Secretary of State	Voting Access for Individuals with Disabilities_Grants to States	93.617		203,759.66
Finance and Administration	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624		556,726.13
Intellectual and Developmental Disabilities	Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,153,579.64
University of Tennessee	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		535,783.97
Children's Services	Children's Justice Grants to States	93.643		332,725.00
Children's Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645		9,389,059.18
University of Tennessee	Child Welfare Research Training or Demonstration	93.648		900,301.85
Children's Services	Foster Care_Title IV-E	93.658	$ 47,963,545.79	
Children's Services	ARRA-Foster Care_Title IV-E	93.658	(55.53)	47,963,490.26
Children's Services	Adoption Assistance	93.659	$ 44,502,058.14	
Children's Services	ARRA-Adoption Assistance	93.659	(1,635.06)	44,500,423.08
Human Services	Social Services Block Grant	93.667		33,756,293.73
Children's Services	Child Abuse and Neglect State Grants	93.669		576,361.02
Finance and Administration	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671		1,773,175.98
Children's Services	Chafee Foster Care Independence Program	93.674		3,158,220.13

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Health	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733	267,688.99
Health	State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	93.735	361,617.25
Health	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	93.752	1,187,135.00
Health	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program	93.753	51,619.68
Health	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	445,544.89
Health	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	1,416,424.01
Mental Health and Substance Abuse Services	PPHF- Cooperative Agreements to Implement the National Strategy for Suicide Prevention	93.764	111,225.08
Finance and Administration	Children's Health Insurance Program	93.767	118,665,161.48
Finance and Administration	Money Follows the Person Rebalancing Demonstration	93.791	7,445,077.29
Health	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).	93.815	89.56
University of Tennessee	Cardiovascular Diseases Research	93.837	56,246.87
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	42,059.04
University of Tennessee	Allergy and Infectious Diseases Research	93.855	(536.65)
Tennessee State University	Biomedical Research and Research Training	93.859	352,721.12
University of Tennessee	Child Health and Human Development Extramural Research	93.865	43,778.27
East Tennessee State University	Grants for Primary Care Training and Enhancement	93.884	391,249.57
Health	National Bioterrorism Hospital Preparedness Program	93.889	4,302,732.39
Health	Grants to States for Operation of Offices of Rural Health	93.913	130,474.01
Health	HIV Care Formula Grants	93.917	17,567,794.55
Health	Special Projects of National Significance	93.928	8,868.93
Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2,500.00
Health	HIV Prevention Activities_Health Department Based	93.940	6,995,815.46

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		904,624.05
Health	Assistance Programs for Chronic Disease Prevention and Control	93.945		1,343,350.16
Health	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		239,140.36
Mental Health and Substance Abuse Services	Block Grants for Community Mental Health Services	93.958		8,482,090.40
Mental Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959		27,785,418.19
East Tennessee State University	Prevention and Public Health Fund (PPHF) Public Health Traineeships	93.964		118,642.31
Health	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		2,043,120.22
Health	Preventive Health and Health Services Block Grant	93.991		18,637.84
Health	Maternal and Child Health Services Block Grant to the States	93.994		5,579,779.93
Tennessee Bureau of Investigation	TBI State Medicaid Fraud Control Asset Forfeiture	93 / UNKNOWN		34,728.24
Subtotal Direct Programs				$ 627,129,189.56
Passed Through Auburn University				
University of Memphis	Food and Drug Administration_ Research	93.103 / 15-AUFSI-360490-UM		$ 58,181.50
Passed Through Vanderbilt University				
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / T73 MC00050	$ 5,863.80	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / VUMC6915 AMEND 3	8,297.32	14,161.12
Passed Through National Partnership for Environmental Technology Education				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10514	$ 27,859.13	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10532	87,805.94	115,665.07
Passed Through University of Cincinnati				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 5U45ES006184-22	$ 17,620.18	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 5U45ES006184-23	288,017.50	305,637.68
Passed Through Douglas-Cherokee Economic Authority, Incorporated				
University of Tennessee	Teenage Pregnancy Prevention Program	93.297 / TEEN PREG PREV YR 3	$ 7,393.44	
University of Tennessee	Teenage Pregnancy Prevention Program	93.297 / TEEN PREG YR 4	4,971.05	12,364.49
Passed Through Emory University				
East Tennessee State University	Affordable Care Act (ACA) Public Health Training Centers Program	93.516 / T278676		29,688.49

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through National Council on Aging				
Commission on Aging and Disability	Affordable Care Act - Medicare Improvements for Patients and Providers	93.518 / UNKNOWN		45,584.96
Passed Through National Safe Place				
University of Tennessee	Transitional Living for Homeless Youth	93.550 / 90-CY6498-01-00		182,625.16
Passed Through Mid-Cumberland Community Action Agency				
Middle Tennessee State University	Community Services Block Grant	93.569 / UNKNOWN		6,332.89
Passed Through Knoxville-Knox County Community Action Committee				
University of Tennessee	Head Start	93.600 / HEAD START		7,473.87
Passed Through Shelby County Government				
Southwest Tennessee Community College	Head Start	93.600 / UNKNOWN		256,469.65
Passed Through LeBonheur Community Health and Well-Being				
University of Tennessee	Health Care Innovation Awards (HCIA)	93.610 / CMS331046		225,998.17
Passed Through Carnegie Mellon University				
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM095335-04	$ 11,570.35	
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM095335-05	6,308.05	17,878.40
Passed Through University of Maryland				
University of Tennessee	Medical Library Assistance	93.879 / NO1-LM-6-3502		(31.44)
University of Tennessee	Test for Suppresssion Effects of Advanced Energy	93.999 / NO1-LM-6-3502		(21.04)
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	PPHF Geriatric Education Centers	93.969 / 3048111909-15-069		112,826.00
Passed Through Meharry Medical College				
Tennessee State University	PPHF Geriatric Education Centers	93.969 / 6UB4HP19055-04-01	$ 122.42	
Tennessee State University	PPHF Geriatric Education Centers	93.969 / 6UB4HP19055-05-02	13,162.57	13,284.99
Passed Through Harmony Family Center				
University of Tennessee	Harmony Family Center FY15 Cunningham	93 / TRANSFORM PROG EVAL		61,031.93
Passed Through University of Memphis Research Foundation				
University of Memphis	Energy Conservation and Wastewater	93 / NAS-098-15-070		1,707.96
Subtotal Pass-Through Programs				$ 1,466,859.85
Subtotal Department of Health and Human Services				$ 628,596,049.41

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Corporation for National and Community Service				
Direct Programs				
Finance and Administration	State Commissions	94.003		$ 293,061.36
Finance and Administration	AmeriCorps	94.006		3,748,971.38
Finance and Administration	Volunteer Generation Fund	94.021		88,123.17
Subtotal Direct Programs				$ 4,130,155.91
Passed Through Equal Justice Works				
University of Tennessee	Equal Justice Works Americ C/S McKanders	94 / FELLOWSHIP PROGRAM		$ 902.00
Subtotal Pass-Through Programs				$ 902.00
Subtotal Corporation for National and Community Service				$ 4,131,057.91
Executive Office of the President				
Direct Programs				
Alcoholic Beverage Commission	High Intensity Drug Trafficking Areas Program	95.001	$ 2,334.62	
Safety and Homeland Security	High Intensity Drug Trafficking Areas Program	95.001	104,065.54	
Tennessee Bureau of Investigation	High Intensity Drug Trafficking Areas Program	95.001	214,692.92	$ 321,093.08
Subtotal Executive Office of the President				$ 321,093.08
Department of Homeland Security				
Direct Programs				
Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance	97.012		$ 1,896,511.72
Economic and Community Development	Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		139,062.81
Military	Flood Mitigation Assistance	97.029		12,628.67
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		25,337,337.92
Military	Hazard Mitigation Grant	97.039		13,695,004.40
Environment and Conservation	National Dam Safety Program	97.041		116,572.82
Military	Emergency Management Performance Grants	97.042		6,392,579.02
Commerce and Insurance	State Fire Training Systems Grants	97.043		15,788.45
Commerce and Insurance	Assistance to Firefighters Grant	97.044		377,452.44
Finance and Administration	Cooperating Technical Partners	97.045		73,489.60
Military	Pre-Disaster Mitigation	97.047		171,521.87
Military	Homeland Security Grant Program	97.067		5,746,569.37
University of Tennessee	Competitive Training Grant	97.068		248,779.41
Safety and Homeland Security	Driver's License Security Grant Program	97.089		353,858.87
Labor and Workforce Development	Federal Equitable Sharing Program	97 / Federal Equitable Sharing Program		296.04
Subtotal Direct Programs				$ 54,577,453.41

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Shelby County Government				
University of Memphis	Homeland Security Grant Program	97.067 / CA-1415211		$ 57,587.56
Passed Through Vanderbilt University				
Austin Peay State University	NASA - EPSCOR Research Infrastructure Development	97 / 20948-S3		249.61
Subtotal Pass-Through Programs				$ 57,837.17
Subtotal Department of Homeland Security				$ 54,635,290.58
Total Unclustered Programs				$ 2,243,900,292.43

Research and Development Cluster

Department of Agriculture

Agricultural Marketing Service

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
University of Tennessee	Transportation Services	10.167		$ 4,321.02
Subtotal Direct Programs				$ 4,321.02
Passed Through Knoxville-Knox County Metropolitan Planning Commission				
University of Tennessee	Farmers' Market and Local Food Promotion Program	10.168 / LFPP-2014		$ 12,458.48
Passed Through The Works, Incorporated				
University of Memphis	Farmers' Market and Local Food Promotion Program	10.168 / 12-25-G-1418		2,075.57
Passed Through North Carolina State University				
University of Tennessee	Specialty Crop Block Grant Program - Farm Bill	10.170 / 2012-2253-01		42,122.58
Subtotal Pass-Through Programs				$ 56,656.63
Subtotal Agricultural Marketing Service				$ 60,977.65

Agricultural Research Service

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
Middle Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	$ 21,053.58	
Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	328,764.17	
Tennessee Technological University	Agricultural Research_Basic and Applied Research	10.001	4,625.58	
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001	2,336,250.05	$ 2,690,693.38
Subtotal Direct Programs				$ 2,690,693.38

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Arkansas Children's Hospital Research Institute				
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001 / 034514	$	8,567.01
Subtotal Pass-Through Programs			$	8,567.01
Subtotal Agricultural Research Service			$	2,699,260.39
Animal and Plant Health Inspection Service				
Direct Programs				
University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	57,119.42
University of Tennessee	Wildlife Services	10.028		83,485.26
Subtotal Animal and Plant Health Inspection Service			$	140,604.68
Forest Service				
Direct Programs				
University of Tennessee	Forestry Research	10.652	$	54,151.12
University of Tennessee	Cooperative Forestry Assistance	10.664		3,321.77
University of Tennessee	Urban and Community Forestry Program	10.675		(36,623.01)
University of Tennessee	Forest Health Protection	10.680		301,518.29
Subtotal Direct Programs			$	322,368.17
Passed Through Kansas State University				
University of Tennessee	Cooperative Forestry Assistance	10.664 / S14159	$	78,841.39
Passed Through National Fish and Wildlife Foundation				
University of Tennessee	Cooperative Forestry Assistance	10.664 / 42215		76,767.59
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 36872		16,804.36
Passed Through U.S. Endowment for Forestry and Communities, Incorporated				
University of Tennessee	Cooperative Forestry Assistance	10.664 / 2013-017		18,665.30
Subtotal Pass-Through Programs			$	191,078.64
Subtotal Forest Service			$	513,446.81
National Institute of Food and Agriculture				
Direct Programs				
Tennessee State University	Cooperative Forestry Research	10.202	$	129,438.03
Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205		4,104,060.10
University of Tennessee	Animal Health and Disease Research	10.207		24,339.66
Tennessee State University	1890 Institution Capacity Building Grants	10.216		1,203,633.96
University of Tennessee	Higher Education - Institution Challenge Grants Program	10.217		159,624.24

State of Tennessee
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For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee State University	Integrated Programs	10.303	$ (13,679.76)	
University of Tennessee	Integrated Programs	10.303	335,316.83	321,637.07
University of Tennessee	Organic Agriculture Research and Extension Initiative	10.307		843.51
Middle Tennessee State University	Agriculture and Food Research Initiative (AFRI)	10.310	$ 81,141.81	
Tennessee State University	Agriculture and Food Research Initiative (AFRI)	10.310	1,370,801.23	
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310	4,143,115.18	5,595,058.22
University of Tennessee	Sun Grant Program	10.320		402,572.70
Middle Tennessee State University	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)	10.326		58,276.25
University of Tennessee	Alfalfa and Forage Research Program	10.330		1,420.97
University of Tennessee	Cooperative Extension Service	10.500		44,239.20
Subtotal Direct Programs				$ 12,045,143.91
Passed Through Purdue University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 8000050955-AG		$ 242.15
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 422317-19121		10,768.82
University of Tennessee	Integrated Programs	10.303 / 545850-19121		(11.55)
Passed Through University of Georgia				
East Tennessee State University	Sustainable Agriculture Research and Education	10.215 / RD309-122/4944806	$ 714.43	
Tennessee State University	Sustainable Agriculture Research and Education	10.215 / 2013-38640-20856	53,000.96	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-122/4941266	(191.61)	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-125/3502098	2,562.54	56,086.32
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC294-323/4943246	$ 33,842.00	
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC294-330/4945556	41,261.20	75,103.20
Passed Through Kentucky State University				
University of Tennessee	1890 Institution Capacity Building Grants	10.216 / KSU SUBAWARD		873.74
Passed Through Virginia State University				
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2010-38821-21614		13,948.95
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / 2001-2893-01		69,546.24
Passed Through Cornell University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 613414-9392		116,758.39

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through Texas Agriculture Extension Services			
University of Tennessee	Specialty Crop Research Initiative	10.309 / 06-S150656	24,737.91
Passed Through University of Arkansas			
University of Tennessee	Specialty Crop Research Initiative	10.309 / UA AES 91111-02	85,247.20
University of Tennessee	Cooperative Extension Service	10.500 / 21664-11	16,113.74
Passed Through University of Florida			
University of Tennessee	Specialty Crop Research Initiative	10.309 / UF 11284	48,888.05
Passed Through Iowa State University			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 416-23-11A	102,801.04
Passed Through The Pennsylvania State University			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 4774-UTIA-USDA-9752	12,705.65
Passed Through University of Illinois			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 2013-00998-01	71,631.99
Passed Through University of Maine			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / UM-5878	34,588.86
Passed Through University of Nebraska			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 25-6239-0235-310	18,557.76
Passed Through Washington State University			
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 115334 G002889	213,726.86
Passed Through Auburn University			
University of Tennessee	Sun Grant Program	10.320 / 13-FWS-368030-UTK`	35,123.51
Passed Through South Dakota State University			
University of Tennessee	Sun Grant Program	10.320 / 3TF640	561.56
Passed Through American Association of Retired Persons Foundation			
Tennessee State University	Food Insecurity Nutrition Incentive Grants Program	10.331 / 2015-70018-23332	9,165.92
Subtotal Pass-Through Programs			$ 1,017,166.31
Subtotal National Institute of Food and Agriculture			$ 13,062,310.22

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Natural Resources Conservation Service				
Direct Programs				
University of Tennessee	Soil Survey	10.903		$ 17,807.74
University of Tennessee	Environmental Quality Incentives Program	10.912		33,722.69
Subtotal Natural Resources Conservation Service				$ 51,530.43
The Office of the Chief Economist				
Direct Programs				
University of Tennessee	Agricultural Market and Economic Research	10.290		$ 22,777.38
Subtotal The Office of the Chief Economist				$ 22,777.38
Other Programs				
Direct Programs				
University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		$ 185.42
University of Memphis	Biotechnology Risk Assessment Research	10.219	$ 203,693.22	
University of Tennessee	Biotechnology Risk Assessment Research	10.219	301,561.45	505,254.67
Austin Peay State University	Monitoring Responses of Herpetofaunal Communities To Prescribed Burns	10 / 13-CR-11242302-040		7,764.92
Austin Peay State University	USDA Forest Service, Land Between the Lakes Botany Survey	10 / 11-PA-11086000-017		10,891.02
University of Tennessee	Delta Regional Authority Sub-USDA-Waters	10 / UNKNOWN		658.11
University of Tennessee	USDA ARS Energy Policy Analysis-English	10 / 58-0111-11-001		37,707.67
University of Tennessee	USDA FS 09CS11080400029 Sngbd-Buehler	10 / 09CS11080400029		(191.44)
University of Tennessee	USDA FS 09JV11242311106 Pln-Schlarbaum	10 / 09JV11242311-106		1,779.81
University of Tennessee	USDA FS 10CR11330134023 Data-Belli	10 / 10-CR-11330134-023		9,953.24
University of Tennessee	USDA FS 14CR11330134009 Chsnt-Schlarbaum	10 / 14CR11330134009		10.71
University of Tennessee	USDA FS 14CS11080400010 Avian-Buehler	10 / 14CS11080400010		17,884.52
University of Tennessee	USDA FS 14JV11330144059-Poudyal	10 / 14-JV-11330144-059		5,975.47
University of Tennessee	USDA FS 14JV11330145111-Belli	10 / 14-JV-11330145-111		41,200.32
University of Tennessee	USDA FS AG4568C140036 SRS Support-Belli	10 / AG-4568-C-14-0036		91,432.10
University of Tennessee	USDA FS American Chestnut-Schlarbaum	10 / 14-JV-11242316-148		4,045.11
University of Tennessee	USDA FS Chattahoochee-Oconee-Schexnayder	10 / 13-CS-11080300-020		30,815.01
University of Tennessee	USDA FS Genetic Specialist 14-Schlarbaum	10 / 14-CS-11083133-001		24,678.04

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	USDA FS Mgt & Ecological Processes-Belli	10 / 15-CR-11330134-007		11,339.48
Subtotal Direct Programs				$ 801,384.18
Passed Through Indiana University of Pennsylvania				
University of Tennessee	IUP-RI Warbler Breeding Mgt-Buehler	10 / 1112-045UT		$ 28,538.04
Subtotal Pass-Through Programs				$ 28,538.04
Subtotal Other Programs				$ 829,922.22
Subtotal Department of Agriculture				$ 17,380,829.78
Department of Commerce				
National Institute of Standards and Technology (NIST)				
Direct Programs				
Middle Tennessee State University	Measurement and Engineering Research and Standards	11.609	$ 530.00	
University of Memphis	Measurement and Engineering Research and Standards	11.609	14,664.00	
University of Tennessee	Measurement and Engineering Research and Standards	11.609	2,302.97	$ 17,496.97
Subtotal National Institute of Standards and Technology (NIST)				$ 17,496.97
Other Programs				
Direct Programs				
East Tennessee State University	Meteorologic and Hydrologic Modernization Development	11.467		$ 75,501.51
University of Tennessee	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478		148,604.48
Subtotal Other Programs				$ 224,105.99
Subtotal Department of Commerce				$ 241,602.96
Department of Defense				
Department of the Navy, Office of the Chief of Naval Research				
Direct Programs				
Tennessee State University	Basic and Applied Scientific Research	12.300	$ 40,716.59	
Tennessee Technological University	Basic and Applied Scientific Research	12.300	182,208.00	
University of Memphis	Basic and Applied Scientific Research	12.300	751,729.98	
University of Tennessee	Basic and Applied Scientific Research	12.300	1,775,497.11	$ 2,750,151.68
Subtotal Direct Programs				$ 2,750,151.68
Passed Through Alabama Agricultural and Mechanical University				
Middle Tennessee State University	Basic and Applied Scientific Research	12.300 / SUB-FA8750-15-2-0106-		$ 18,432.70

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through American Lightweight Materials Manufacturing Innovation Institute				
University of Tennessee	Basic and Applied Scientific Research	12.300 / 0001		7,942.07
Passed Through University of Colorado				
University of Tennessee	Basic and Applied Scientific Research	12.300 / 1548375		121,730.00
Subtotal Pass-Through Programs				$ 148,104.77
Subtotal Department of the Navy, Office of the Chief of Naval Research				$ 2,898,256.45
National Security Agency				
Direct Programs				
University of Memphis	Information Security Grants	12.902		$ 1,170.81
Subtotal National Security Agency				$ 1,170.81
Other Programs				
Direct Programs				
University of Tennessee	Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		$ 565,310.44
East Tennessee State University	Military Medical Research and Development	12.420	$ 59,972.97	
University of Memphis	Military Medical Research and Development	12.420	726,017.91	
University of Tennessee	Military Medical Research and Development	12.420	858,962.13	1,644,953.01
Tennessee State University	Basic Scientific Research	12.431	$ 138,171.19	
University of Memphis	Basic Scientific Research	12.431	291,925.14	
University of Tennessee	Basic Scientific Research	12.431	973,793.50	1,403,889.83
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630	$ 177,136.02	
Tennessee Technological University	Basic, Applied, and Advanced Research in Science and Engineering	12.630	41,992.80	
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630	133,253.68	352,382.50
Tennessee State University	Air Force Defense Research Sciences Program	12.800	$ 58,094.78	
University of Tennessee	Air Force Defense Research Sciences Program	12.800	84,053.68	142,148.46
Middle Tennessee State University	Mathematical Sciences Grants Program	12.901		6,088.45
University of Tennessee	Research and Technology Development	12.910		1,547,314.46
University of Tennessee	AEDC FA9101-15-D-0002-0001 BOMAR	12 / FA9101-15-D-0001/001		1,699.42
University of Tennessee	AF FA7014-10-D-0012-T12 Stewart	12 / FA7014-10-D-0012 #12		1,074,323.76
University of Tennessee	AF FA9101-06-D-0001/0006 MOELLER	12 / FA9101-06-D-00010006		1,503.19
University of Tennessee	AF FA9101-06-D-0001/0017 MOELLER	12 / FA9101-06-D-00010017		(596.75)
University of Tennessee	AF FA9101-06-D-0001/0018 MOELLER	12 / FA9101-06-D-00010018		16,414.08

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
University of Tennessee	AF FA9101-06-D-0001/0020 MOELLER	12 / FA9101-06-D-0001/020	23,476.81
University of Tennessee	AF FA9101-06-D-0001/0021 MOELLER	12 / FA9101-06-D-00010021	38,327.36
University of Tennessee	AF FA9101-06-D-0001-0019 ANUSONTI-INTHRA	12 / FA9101-06-D-0001-019	(11.39)
University of Tennessee	Air Force FA8650-13-C-2326 Frankel	12 / FA8650-13-C-2326	101,791.40
University of Tennessee	Air Force FA8650-15-C-5205 Babu	12 / FA8650-15-C-5205	86,225.88
University of Tennessee	DOD IPA Stewart (Werner)	12 / IPA DATED 7/3/2014	200,796.54
University of Tennessee	Missile Defense HQ0147-12-C-6019 Abidi	12 / HQ0147-12-C-6019	320,042.57
University of Tennessee	Navy N62583-11-C-0521 Loeffler 49%	12 / N62583-11-C-0521	79,503.65
University of Tennessee	TSNRP Gr HU0001-08-1-TS10B	12 / HU0001081TS10-N08003	(1.63)
University of Tennessee	TSNRP Gr HU0001-10-1-TS04-N10-P01	12 / HU0001101TS04-N10P01	171,918.43
University of Tennessee	USACE W912HQ-13-C-0055 Loeffler	12 / W912HQ-13-C-0055	262,947.01
University of Tennessee	USACE W912HQ-13-C-0069 Parker	12 / W912HQ-13-C-0069	187,072.06
Subtotal Direct Programs			$ 8,227,519.54
Passed Through American Burn Association			
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH0920194	$ 97,381.26
Passed Through Children's Hospital of Pittsburgh of UPMC			
University of Tennessee	Military Medical Research and Development	12.420 / 19841	5,467.58
Passed Through Children's Research Institute			
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-12-1-0417	(4,601.31)
Passed Through Denver Research Institute			
University of Memphis	Military Medical Research and Development	12.420 / MSRC FY13 026	11,310.16
Passed Through Florida State University			
University of Tennessee	Military Medical Research and Development	12.420 / R01745	21,100.00
Passed Through Foundation Fighting Blindness, Incorporated			
University of Tennessee	Military Medical Research and Development	12.420 / NNSP-CL-0811-0059 UTENN-NER	168,363.52
Passed Through Indiana University			
University of Tennessee	Military Medical Research and Development	12.420 / 4386045-IUTHSC	16,137.89
Passed Through University of Pittsburgh			
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-12-2-0023	91,828.17

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through University of Texas			
University of Tennessee	Military Medical Research and Development	12.420 / 0006507	17,273.60
Passed Through The Pennsylvania State University			
University of Tennessee	Basic Scientific Research	12.431 / 4542-UTK-USA-0531	20,249.71
Passed Through State University of New York			
Tennessee State University	Basic Scientific Research	12.431 / W911NF-09-1-0392	56,894.80
Passed Through Prairie View A&M University			
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / FC10053 ACCT 416270	45,791.26
Passed Through Iowa State University			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 421-21-03B	201,103.18
Passed Through University of Illinois			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 2012-02298-05	39,241.01
Passed Through University of Texas at Arlington			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 26-0201-44-61	19,438.55
Passed Through University of Virginia			
University of Memphis	Air Force Defense Research Sciences Program	12.800 / GG11578 146629	89,698.43
Passed Through Virginia Polytechnic Institute and State University			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 450174-19121-02	197,156.71
Passed Through Academy of Applied Science			
Tennessee State University	Research and Engineering Apprentice Program	12 / DAAH04-93-G-0163	1,244.38
Passed Through Massachusetts Institute of Technology			
Tennessee Technological University	Advancement of Cryogenic Electronics	12 / PO 7000293007	230,985.44
Passed Through Sandia National Laboratories			
University of Tennessee	Sandia Natl Lab PO1445803 Andrew Yu	12 / PO# 1445803	104,385.01
Passed Through Southern Methodist University			
University of Tennessee	Southern Methodist Univ-AS107D-Williams	12 / 20499	60,409.51

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through Tufts University			
University of Tennessee	Tufts University IN Situ Remedl #2 Loeff	12 / USAF68	98,886.88
Passed Through University of Dayton			
Tennessee State University	State Awareness for Increased Autonomy: Control of Autonomous Ground Vehicles in Dynamic Environments	12 / FA8650-11-D-3134	74,605.71
Passed Through University of Michigan			
Tennessee State University	Testing and Analysis of Lithium-Ion Batteries for Performance, Reliability, Safety and Life Cycle Evaluation	12 / N65540-10-C-0003	117,960.43
Passed Through Vertical Lift Consortium			
University of Tennessee	Vertical Lift 2013001 Phase II DeSmidt	12 / 2013001 P00009	95,748.43
University of Tennessee	Vertical Lift 2014-B-21-T2.1-A26 DeSmidt	12 / 2014-B-21-T2.1-A26	22,151.83
Subtotal Pass-Through Programs			$ 1,900,212.14
Subtotal Other Programs			$ 10,127,731.68
Subtotal Department of Defense			$ 13,027,158.94
	Central Intelligence Agency		
Direct Programs			
University of Memphis	Computationally Estimating Geographical Information from User-Contributed Data	13 / 2012-12062700004	$ 39,924.91
University of Memphis	Discovering the Vulnerable Physical Routes in a Network	13 / 2013-13070300001	109,600.99
University of Tennessee	CIA 2014-14063000005 Humble	13 / 2014-14063000005	48,993.60
Subtotal Central Intelligence Agency			$ 198,519.50
	Department of Housing and Urban Development		
Passed Through Memphis and Shelby County Division of Planning and Development			
University of Memphis	Sustainable Communities Regional Planning Grant Program	14.703 / CA1315554	$ (40,471.25)
Passed Through Shelby County Government			
University of Memphis	Sustainable Communities Regional Planning Grant Program	14.703 / CA1416948	34,912.80
Passed Through United Housing, Incorporated			
University of Memphis	Scenic Hills Loch Nevin Dam	14 / Congress Approp	862.50
Subtotal Department of Housing and Urban Development			$ (4,695.95)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Department of the Interior						
Bureau of Land Management						
Direct Programs						
University of Tennessee	Wildland Fire Research and Studies Program	15.232			$	210,339.09
Subtotal Bureau of Land Management					$	210,339.09
Bureau of Reclamation						
Direct Programs						
University of Tennessee	Water Desalination Research and Development Program	15.506			$	92,656.26
Subtotal Bureau of Reclamation					$	92,656.26
Fish and Wildlife Service						
Direct Programs						
University of Tennessee	Cooperative Endangered Species Conservation Fund	15.615			$	1,421.88
Middle Tennessee State University	Endangered Species Conservation - Recovery Implementation Funds	15.657				12,471.87
University of Tennessee	Endangered Species - Candidate Conservation Action Funds	15.660				5,457.89
Subtotal Direct Programs					$	19,351.64
Passed Through Gulf States Marine Fisheries Commission						
Tennessee Technological University	Fish and Wildlife Management Assistance	15.608 / FWS-800-037-2014-TNTECH-AMEND1			$	9,690.68
Passed Through Louisiana Department of Wildlife and Fisheries						
University of Tennessee	Fish and Wildlife Management Assistance	15.608 / PO 2000091935				31,992.66
Passed Through University of Nevada, Reno						
Austin Peay State University	Fish and Wildlife Management Assistance	15.608 / UNR-13-01				10,170.25
Passed Through The Nature Conservancy						
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-100111-3850-01 AMEND #3				2,199.65
Passed Through Kentucky Department of Fish and Wildlife Resources						
Austin Peay State University	Research Grants (Generic)	15.650 / C-15-0410	$	339.09		
Austin Peay State University	Research Grants (Generic)	15.650 / PON2 660 1300002994 1		2,811.37		

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Austin Peay State University	Research Grants (Generic)	15.650 / PON2 660 1400003034 1	7,912.50	11,062.96
Subtotal Pass-Through Programs				$ 65,116.20
Subtotal Fish and Wildlife Service				$ 84,467.84
		National Park Service		
Direct Programs				
University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	15.916		$ 11,963.37
University of Memphis	National Center for Preservation Technology and Training	15.923		38,408.68
University of Tennessee	American Battlefield Protection	15.926		3,931.52
Middle Tennessee State University	Cooperative Research and Training Programs - Resources of the National Park System	15.945	$ 124,815.88	
Tennessee Technological University	Cooperative Research and Training Programs - Resources of the National Park System	15.945	30,893.31	
University of Memphis	Cooperative Research and Training Programs - Resources of the National Park System	15.945	9,140.76	
University of Tennessee	Cooperative Research and Training Programs - Resources of the National Park System	15.945	270,839.37	435,689.32
University of Tennessee	Cultural Resources Management	15.946		351.34
East Tennessee State University	National Park Service Conservation, Protection, Outreach, and Education	15.954	$ 2,482.64	
Tennessee State University	National Park Service Conservation, Protection, Outreach, and Education	15.954	3,604.95	6,087.59
Subtotal Direct Programs				$ 496,431.82
Passed Through City of Selma				
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904 / AL-11-030		$ 5,000.00
Subtotal Pass-Through Programs				$ 5,000.00
Subtotal National Park Service				$ 501,431.82
		U.S. Geological Survey		
Direct Programs				
University of Tennessee	Assistance to State Water Resources Research Institutes	15.805		$ 115,894.22
University of Memphis	Earthquake Hazards Research Grants	15.807	$ 736,343.84	
University of Memphis	Earthquake Hazards Research and Monitoring Assistance	15.807	320,007.92	1,056,351.76
Middle Tennessee State University	U.S. Geological Survey_Research and Data Collection	15.808	$ 23,429.66	
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808	11,697.43	
University of Tennessee	U.S. Geological Survey_Research and Data Collection	15.808	74,934.81	110,061.90
University of Tennessee	National Cooperative Geologic Mapping Program	15.810		1,472.12

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Tennessee Technological University	Cooperative Research Units Program	15.812				93,620.52
Subtotal Direct Programs					$	1,377,400.52
Passed Through Georgia Institute of Technology						
University of Memphis	Earthquake Hazards Research Grants	15.807 / RE726-G1			$	4,468.25
Passed Through University of Southern California						
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808 / 49859332	$	57,439.52		
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808 / 61400652		4,232.30		61,671.82
Passed Through Iowa State University						
University of Tennessee	National Cooperative Geologic Mapping Program	15.810 / 424-17-03				12,353.55
Subtotal Pass-Through Programs					$	78,493.62
Subtotal U.S. Geological Survey					$	1,455,894.14
Other Programs						
Direct Programs						
University of Tennessee	NPS ELISA Assay Development-Gerhold	15 / ELISA			$	894.77
University of Tennessee	USFW Wetland Inv and Monitoring-Gray	15 / INF13PC00188				(3,265.56)
Subtotal Direct Programs					$	(2,370.79)
Passed Through Southern Conservation Corporation						
Austin Peay State University	Clarks River National Wildlife Refuge	15 / C-09-0503			$	9.58
Subtotal Pass-Through Programs					$	9.58
Subtotal Other Programs					$	(2,361.21)
Subtotal Department of the Interior					$	2,342,427.94
Department of Justice						
Bureau of Justice Assistance						
Passed Through City of Memphis Police Department						
University of Memphis	Project Safe Neighborhoods	16.609 / 32173			$	3,040.83
Subtotal Bureau of Justice Assistance					$	3,040.83

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
National Institute of Justice				
Direct Programs				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		$ 188,216.82
Subtotal Direct Programs				$ 188,216.82
Passed Through Arizona State University				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 15-697		$ 6,090.69
Passed Through City of New York				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / CT181620151415376		18,217.20
Passed Through Lincoln Memorial University				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 2013-DN-BX-K038-002	$ 68,412.78	
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 2014-DN-BX-K010	26,714.70	95,127.48
Passed Through Sam Houston State University				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 22092B		51,388.18
Subtotal Pass-Through Programs				$ 170,823.55
Subtotal National Institute of Justice				$ 359,040.37
Office of Juvenile Justice and Delinquency Prevention				
Passed Through City of Knoxville				
University of Tennessee	Missing Children's Assistance	16.543 / C-14-0202		$ 23,048.34
Subtotal Office of Juvenile Justice and Delinquency Prevention				$ 23,048.34
Subtotal Department of Justice				$ 385,129.54
Department of Labor				
Direct Programs				
University of Tennessee	Wage and Hour Standards	17.303		$ 1,866,743.69
Subtotal Department of Labor				$ 1,866,743.69

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of State				
Bureau of Educational and Cultural Affairs				
Direct Programs				
University of Tennessee	Professional and Cultural Exchange Programs - Citizen Exchanges	19.415		$ 1,215,292.84
Subtotal Bureau of Educational and Cultural Affairs				$ 1,215,292.84
Bureau of International Security and Nonproliferation				
Direct Programs				
University of Tennessee	Global Threat Reduction	19.033		$ 185,753.27
Subtotal Bureau of International Security and Nonproliferation				$ 185,753.27
Other Programs				
Passed Through U.S. Civilian Research and Development Foundation				
University of Tennessee	General Department of State Assistance	19.700 / GTR2-14-61023-1		$ 29,616.65
Subtotal Other Programs				$ 29,616.65
Subtotal Department of State				$ 1,430,662.76
Department of Transportation				
Federal Aviation Administration (FAA)				
Direct Programs				
University of Tennessee	Air Transportation Centers of Excellence	20.109		$ 178,143.20
Subtotal Federal Aviation Administration (FAA)				$ 178,143.20
Federal Highway Administration (FHWA)				
Direct Programs				
University of Memphis	Highway Research and Development Program	20.200	$ 209,748.07	
University of Tennessee	Highway Research and Development Program	20.200	111,744.01	$ 321,492.08
University of Tennessee	Highway Training and Education	20.215		2.32
Subtotal Direct Programs				$ 321,494.40
Passed Through Knox County				
University of Tennessee	Highway Training and Education	20.215 / 14-584		$ 68,965.92
Subtotal Pass-Through Programs				$ 68,965.92
Subtotal Federal Highway Administration (FHWA)				$ 390,460.32

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Federal Transit Administration (FTA)						
Direct Programs						
University of Tennessee	Public Transportation Research, Technical Assistance, and Training	20.514			$	81,770.38
Subtotal Federal Transit Administration (FTA)					$	81,770.38
Office of the Secretary (OST) Administration Secretariate						
Direct Programs						
University of Tennessee	University Transportation Centers Program	20.701			$	1,528,438.46
University of Tennessee	Biobased Transportation Research	20.761				327,159.07
Subtotal Direct Programs					$	1,855,597.53
Passed Through Georgia Institute of Technology						
University of Memphis	University Transportation Centers Program	20.701 / RC614-G9			$	18,468.93
Passed Through Hampton University						
University of Tennessee	University Transportation Centers Program	20.701 / HU-140006				12,650.99
Passed Through Louisiana State University						
University of Tennessee	University Transportation Centers Program	20.701 / 83708				30,638.62
Passed Through Mississippi State University						
University of Tennessee	University Transportation Centers Program	20.701 / 061300.363277.07				11,094.80
Passed Through Old Dominion University						
University of Tennessee	University Transportation Centers Program	20.701 / 14-156-521702				21,966.52
Passed Through University of Illinois						
University of Tennessee	University Transportation Centers Program	20.701 / 2012-02061-04 A069	$	152,246.14		
University of Tennessee	University Transportation Centers Program	20.701 / 2013-05178-05		61,141.22		213,387.36
Passed Through University of Wisconsin-Madison						
University of Memphis	University Transportation Centers Program	20.701 / 396K594				583,285.62
Passed Through Western Michigan University						
Tennessee State University	University Transportation Centers Program	20.701 / DTRT13G-UTC60				25,643.63

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through University of Georgia				
Middle Tennessee State University	Biobased Transportation Research	20.761 / RR722-134/4893566		6,258.51
Subtotal Pass-Through Programs			$	923,394.98
Subtotal Office of the Secretary (OST) Administration Secretariate			$	2,778,992.51
Pipeline and Hazardous Materials Safety Administration				
Direct Programs				
University of Tennessee	Pipeline Safety Program State Base Grant	20.700	$	103,368.50
Subtotal Pipeline and Hazardous Materials Safety Administration			$	103,368.50
Other Programs				
Direct Programs				
University of Tennessee	DOT FAA Altrnt Jet Fuel & Envrnnt-Rials	20 / AJFE	$	1,501.08
Subtotal Direct Programs			$	1,501.08
Passed Through Iowa Department of Transportation				
University of Tennessee	Iowa Dept of Transport - Papanicolaou	20 / 16635	$	6,248.65
Passed Through Virginia Department of Transportation				
University of Tennessee	VDOT VCTIR Unmet Data Needs Khattak	20 / 31646		(1,363.20)
Passed Through Washington State Department of Transportation				
University of Tennessee	Washington St DOT- GCB 1930 Papanicolaou	20 / GCB 1930		61,755.02
Subtotal Pass-Through Programs			$	66,640.47
Subtotal Other Programs			$	68,141.55
Subtotal Department of Transportation			$	3,600,876.46
Department of the Treasury				
Direct Programs				
University of Tennessee	IRS-BPA TIRN009-Z-00019-TO 0005-Vossler	21 / TIRNO-09-Z-00019	$	93,540.55
Subtotal Department of the Treasury			$	93,540.55

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Securities and Exchange Commission				
Direct Programs				
University of Memphis	Intergovernmental Personnel Act (IPA) Mobility Program	27.011		$ 415,016.79
Subtotal Securities and Exchange Commission				$ 415,016.79
National Aeronautics and Space Administration				
Direct Programs				
Tennessee Technological University	Science	43.001	$ 57,334.15	
University of Tennessee	Science	43.001	704,006.87	$ 761,341.02
University of Tennessee	Aeronautics	43.002		26,720.28
University of Tennessee	Exploration	43.003		48,604.92
University of Tennessee	Space Operations	43.007		45,223.02
University of Tennessee	Cross Agency Support	43.009		(122.59)
University of Tennessee	JPL Moersch	43 / 1242851		4,863.59
University of Tennessee	NASA JPL 1451872 Moersch	43 / CONTRACT NO. 1451872		110,750.92
University of Tennessee	NASA NNL14AB3P Islam	43 / NNL14AB43P		27,277.74
Subtotal Direct Programs				$ 1,024,658.90
Passed Through Arizona State University				
University of Tennessee	Science	43.001 / 01-082	$ 47,106.68	
University of Tennessee	Science	43.001 / 10-254	35,995.96	$ 83,102.64
Passed Through Brown University				
University of Tennessee	Science	43.001 / 00000675		27,227.52
Passed Through Johns Hopkins University				
University of Tennessee	Science	43.001 / 124810	$ 17,307.80	
University of Tennessee	Science	43.001 / 125677	19,516.71	36,824.51
Passed Through SETI Institute				
University of Tennessee	Science	43.001 / SC-3067	$ 41,671.73	
University of Tennessee	Science	43.001 / SC-3068	24,243.11	65,914.84
University of Tennessee	SETI Ins 08-SC-1091 Moersch	43 / 08-SC-1091		4,656.65
University of Tennessee	SETI Ins 08-SC-1092 Moersch	43 / 08-SC-1092		(1,980.69)
Passed Through Smithsonian Astrophysical Observatory				
East Tennessee State University	Science	43.001 / GO3-14003D	$ 5,339.99	
East Tennessee State University	Science	43.001 / GO3-14008X	12,370.65	17,710.64
University of Memphis	Solar B X Ray Telescope	43 / SV4-84001		54,471.41
Passed Through University of Central Florida				
University of Tennessee	Science	43.001 / 66016031-5		40,364.53
Passed Through University of Idaho				
University of Tennessee	Science	43.001 / IDK746-SB-001		43,560.37

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Vanderbilt University				
Austin Peay State University	Science	43.001 / 21603-S2	$ 1,777.59	
East Tennessee State University	Science	43.001 / 3018-011929	2,260.56	
University of Memphis	Science	43.001 / 21631-S1	23,566.62	
University of Tennessee	Science	43.001 / 21603-S11	72,018.65	
University of Tennessee	Science	43.001 / 21603-S12	26,020.39	
University of Tennessee	Science	43.001 / 21630-S1	1,454.54	127,098.35
Tennessee Technological University	Education	43.008 / SUBCONTRACT #21603-S8 AMEND 8	$ 33,778.32	
University of Memphis	Education	43.008 / 21603-S9	3,670.41	
University of Tennessee	Education	43.008 / 2016-015735	228,635.66	266,084.39
Middle Tennessee State University	Tennessee Space Grant College and Fellowship Program	43 / 21603-S6		28,150.26
Tennessee State University	NASA EPSCoR (Experimental Program to Stimulate Competitive Research) Subspace Segmentation and High Dimensional Data Analysis	43 / NNX12AI14A		69,790.85
Passed Through Cornell University				
University of Tennessee	Aeronautics	43.002 / OSP39361-6446		2,936.35
Passed Through University of California, Los Angeles				
University of Tennessee	Aeronautics	43.002 / 2090-S-JB694		97,624.25
Passed Through Colorado State University				
University of Tennessee	Cross Agency Support	43.009 / G-6560-1		53,934.67
Passed Through Space Telescope Science Institute				
Tennessee State University	Follow the Water: The Ultimate WFC3 Exoplanet Atmosphere Survey	43 / NAS5-26555		13.80
Passed Through University of Arizona				
University of Tennessee	University of Arizona PO #30948 Emery	43 / 30948		128,281.45
Passed Through University of New Hampshire				
University of Tennessee	Univ of New Hampshire 11-107-05 Townsend	43 / 11-107		72,645.59
Passed Through University of Northern Iowa				
University of Tennessee	Univ of Northern Iowa S564B Papanicolaou	43 / S5645B		42,893.51
Subtotal Pass-Through Programs				$ 1,261,305.89
Subtotal National Aeronautics and Space Administration				$ 2,285,964.79

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
National Endowment for the Arts				
Direct Programs				
University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals	45.024		$ (88.49)
Subtotal National Endowment for the Arts				$ (88.49)
National Endowment for the Humanities				
Direct Programs				
Middle Tennessee State University	Promotion of the Humanities_ Division of Preservation and Access	45.149		$ 39,512.71
University of Memphis	Promotion of the Humanities_ Research	45.161	$ 149,038.43	
University of Tennessee	Promotion of the Humanities_ Research	45.161	86,805.16	235,843.59
Subtotal Direct Programs				$ 275,356.30
Passed Through University of Minnesota				
Middle Tennessee State University	Promotion of the Humanities_ Office of Digital Humanities	45.169 / A004178401		$ 17,281.89
Subtotal Pass-Through Programs				$ 17,281.89
Subtotal National Endowment for the Humanities				$ 292,638.19
Institute of Museum and Library Services				
Direct Programs				
University of Tennessee	National Leadership Grants	45.312		$ 21,745.44
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		204,443.67
Subtotal Direct Programs				$ 226,189.11
Passed Through Purdue University				
University of Tennessee	National Leadership Grants	45.312 / 4112-64367		$ 6,391.12
Passed Through University of Illinois				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / 2010-03028-02		46,826.45
Subtotal Pass-Through Programs				$ 53,217.57
Subtotal Institute of Museum and Library Services				$ 279,406.68
National Science Foundation				
Direct Programs				
East Tennessee State University	Engineering Grants	47.041	$ 13,276.37	
Tennessee State University	Engineering Grants	47.041	8,489.33	
Tennessee Technological University	Engineering Grants	47.041	443,030.78	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Engineering Grants	47.041	40,588.52	
University of Tennessee	Engineering Grants	47.041	6,849,127.39	$ 7,354,512.39
Austin Peay State University	Mathematical and Physical Sciences	47.049	$ 79,818.92	
East Tennessee State University	Mathematical and Physical Sciences	47.049	227,599.09	
Middle Tennessee State University	Mathematical and Physical Sciences	47.049	78,732.40	
Tennessee State University	Mathematical and Physical Sciences	47.049	211,550.35	
University of Memphis	Mathematical and Physical Sciences	47.049	481,289.33	
University of Tennessee	Mathematical and Physical Sciences	47.049	3,443,583.56	4,522,573.65
East Tennessee State University	Geosciences	47.050	$ 14,157.00	
Middle Tennessee State University	Geosciences	47.050	114,605.04	
University of Memphis	Geosciences	47.050	534,144.77	
University of Tennessee	Geosciences	47.050	795,882.42	1,458,789.23
Tennessee Technological University	Computer and Information Science and Engineering	47.070	$ 85,198.55	
University of Memphis	Computer and Information Science and Engineering	47.070	681,416.10	
University of Tennessee	Computer and Information Science and Engineering	47.070	2,394,211.68	3,160,826.33
Austin Peay State University	Biological Sciences	47.074	$ 116,101.47	
East Tennessee State University	Biological Sciences	47.074	317,644.52	
Middle Tennessee State University	Biological Sciences	47.074	96,953.46	
Tennessee State University	Biological Sciences	47.074	12,705.99	
University of Memphis	Biological Sciences	47.074	295,630.53	
University of Tennessee	Biological Sciences	47.074	6,888,364.91	7,727,400.88
Austin Peay State University	Social, Behavioral, and Economic Sciences	47.075	$ 4,240.90	
Middle Tennessee State University	Social, Behavioral, and Economic Sciences	47.075	86,185.66	
University of Memphis	Social, Behavioral, and Economic Sciences	47.075	34,131.00	
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075	320,944.88	445,502.44
Austin Peay State University	Education and Human Resources	47.076	$ 41,119.55	
Chattanooga State Community College	Education and Human Resources	47.076	70,865.22	
East Tennessee State University	Education and Human Resources	47.076	66,925.44	
Jackson State Community College	Education and Human Resources	47.076	37,464.37	
Middle Tennessee State University	Education and Human Resources	47.076	274,857.09	
Tennessee State University	Education and Human Resources	47.076	1,410,209.24	
Tennessee Technological University	Education and Human Resources	47.076	1,310,920.86	
University of Memphis	Education and Human Resources	47.076	759,161.20	
University of Tennessee	Education and Human Resources	47.076	2,580,013.34	6,551,536.31
University of Memphis	Polar Programs	47.078	$ 1,780.83	
University of Tennessee	Polar Programs	47.078	68,974.34	70,755.17
East Tennessee State University	Office of International Science and Engineering	47.079	$ 93,308.18	
University of Tennessee	Office of International Science and Engineering	47.079	69,307.35	162,615.53
University of Tennessee	Office of Cyberinfrastructure	47.080		6,898,274.60
University of Tennessee	Office of Experimental Program to Stimulate Competitive Research	47.081		5,055,703.66
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	$ 13,297.85	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee Technological University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	16,282.49	
University of Memphis	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	(991.57)	28,588.77
University of Tennessee	NSF VSEE Retirement E Serpersu	47 / 14MOR1299/14MOR1300		36,200.77
Subtotal Direct Programs				$ 43,473,279.73
Passed Through University of Arkansas				
University of Memphis	Engineering Grants	47.041 / 304026		$ 21,562.64
Passed Through University of Colorado				
University of Tennessee	Engineering Grants	47.041 / 0000075352		32,940.99
University of Memphis	Geosciences	47.050 / 1000278842		47,212.92
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / 1548373		88,307.34
Passed Through University of Iowa				
University of Tennessee	Engineering Grants	47.041 / W000548843		80,575.84
Passed Through University of North Carolina				
University of Tennessee	Engineering Grants	47.041 / 5037373		24,587.21
Passed Through University of Washington				
University of Tennessee	Engineering Grants	47.041 / 763076		19,348.62
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Engineering Grants	47.041 / 478583-19121		9,181.53
Passed Through West Virginia Research Corporation				
University of Memphis	Engineering Grants	47.041 / 15-461-UM		5,188.17
Passed Through Mathematical Association of America				
University of Tennessee	Mathematical and Physical Sciences	47.049 / DMS-0846477		1,399.88
Passed Through The Ohio State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / 60046595		12,403.81
Passed Through Vanderbilt University				
Middle Tennessee State University	Mathematical and Physical Sciences	47.049 / 2710-014625		65,304.18
Passed Through Montana State University				
University of Tennessee	Geosciences	47.050 / G151-15-W5033		50,871.42
Passed Through University of Illinois				
University of Tennessee	Geosciences	47.050 / 2013-04254-06/AA713		67,662.42
University of Tennessee	Computer and Information Science and Engineering	47.070 / 2011-00318-04		4,147,155.74
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2007-01077-12	$ 329,703.57	
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2009-02232-02	265,701.73	
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2010-07-189-03	(3,807.79)	591,597.51

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through University of Southern California				
University of Tennessee	Geosciences	47.050 / 157595	$ (983.89)	
University of Tennessee	Geosciences	47.050 / 36202823	4,767.33	
University of Tennessee	Geosciences	47.050 / 42525882	51,943.53	55,726.97
Passed Through University of Texas at El Paso				
University of Tennessee	Geosciences	47.050 / EAR-1009533		(3,342.80)
Passed Through Carnegie Mellon University				
University of Memphis	Computer and Information Science and Engineering	47.070 / 1122183-333033		90,310.56
Tennessee Technological University	Education and Human Resources	47.076 / 1121770-294173 - AMEND #3		3,035.50
Passed Through Georgia Institute of Technology				
Tennessee Technological University	Computer and Information Science and Engineering	47.070 / SUBAWARD RA978-G11		4,715.48
University of Tennessee	Education and Human Resources	47.076 / CK 752212		2,280.66
University of Tennessee	Office of Cyberinfrastructure	47.080 / RA241-G1		76,546.00
Passed Through University of New Mexico				
University of Tennessee	Computer and Information Science and Engineering	47.070 / 063014-87H2	$ 285,787.46	
University of Tennessee	Computer and Information Science and Engineering	47.070 / 063045-87H2	386,294.97	672,082.43
Passed Through University of South Florida				
Tennessee Technological University	Computer and Information Science and Engineering	47.070 / 2108-1039-00-A MOD NO. 2		5,927.60
Passed Through Portland State University				
University of Tennessee	Biological Sciences	47.074 / 201REY307		30,180.01
Passed Through The Pennsylvania State University				
University of Tennessee	Biological Sciences	47.074 / 427-UT-NSF-5974	$ 5,401.15	
University of Tennessee	Biological Sciences	47.074 / 4373-UT-NSF-5974	96,327.41	101,728.56
Passed Through University of California, Berkeley				
University of Tennessee	Biological Sciences	47.074 / S0184089		26,625.26
Passed Through University of California, Santa Barbara				
University of Tennessee	Biological Sciences	47.074 / KK1321		15,298.79
Passed Through University of Florida				
University of Tennessee	Biological Sciences	47.074 / UFDSP00010128		13,403.34
Passed Through University of Georgia				
University of Tennessee	Biological Sciences	47.074 / RR167-808/S000658	$ 8,342.95	
University of Tennessee	Biological Sciences	47.074 / RR182-436/4945206	12,306.90	20,649.85

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through University of Nebraska				
University of Tennessee	Biological Sciences	47.074 / 25-6235-0199-002		55,615.00
Passed Through University of South Carolina				
University of Tennessee	Biological Sciences	47.074 / 11-1890(13010-FB74)		3.56
Passed Through Arizona State University				
East Tennessee State University	Social, Behavioral, and Economic Sciences	47.075 / 14-301		10,025.14
Passed Through University of Southern Mississippi				
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / USM-GR05085-005-02		2,086.00
Passed Through Central State University				
University of Tennessee	Education and Human Resources	47.076 / P0085626 /8460-003		8,109.00
Passed Through Howard University				
Tennessee State University	Education and Human Resources	47.076 / DUE-1255441		70,265.19
Passed Through Illinois Institute of Technology				
University of Memphis	Education and Human Resources	47.076 / SA460-1201-7993		32,875.76
Passed Through North Carolina Central University				
University of Memphis	Education and Human Resources	47.076 / P0069625		10,185.12
Passed Through Stark State College of Technology				
University of Tennessee	Education and Human Resources	47.076 / NSFFC-0802536-11-10		(20.83)
Passed Through University of Notre Dame				
University of Memphis	Education and Human Resources	47.076 / 202002		116,106.88
Passed Through University of Wisconsin-Madison				
University of Memphis	Education and Human Resources	47.076 / 565K950	$ 43,660.55	
University of Memphis	Education and Human Resources	47.076 / DRL-0918409	115,946.71	159,607.26
Passed Through Civilian Research and Development Foundation Global				
University of Memphis	Office of International Science and Engineering	47.079 / UKB2-7110-KV-13		10,513.42
Passed Through Indiana University				
University of Tennessee	Office of Cyberinfrastructure	47.080 / BL-4812439-UTK		6,584.50
Passed Through State University of New York				
University of Tennessee	Office of Cyberinfrastructure	47.080 / R813071		7,029.94

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through UT-Battelle, Limited Liability Company				
Austin Peay State University	Office of Experimental Program to Stimulate Competitive Research	47.081 / 4000136489		28,707.70
Passed Through Dartmouth College				
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / 969		673.31
Subtotal Pass-Through Programs			$	6,898,835.38
Subtotal National Science Foundation			$	50,372,115.11
Smithsonian Institution				
Direct Programs				
University of Memphis	BioGenomics Initiative	60 / 15-PO-0000323823	$	1,940.47
University of Memphis	Data Collection and Reporting-Colorado LASER Initiative	60 / 15-PO-620-000031687		33,728.31
Subtotal Smithsonian Institution			$	35,668.78
Tennessee Valley Authority				
Direct Programs				
University of Tennessee	TVA 673123 Murray	62 / 673123	$	45,398.10
University of Tennessee	TVA 99998950 PO # 598543 Maldonado	62 / 99998950 PO # 598543		15,371.79
University of Tennessee	TVA PO # 632528 7493 Hollenbach	62 / PO# 632528 7493		(695.90)
University of Tennessee	TVA PO # 725989 7493 Hollenbach	62 / PO# 725989 7493		1,097.37
University of Tennessee	TVA PO # 731220 Bray	62 / PO NO. 731220		48,622.99
University of Tennessee	TVA PO # 748322 Histosol Site - Horn	62 / 99998950 PO#748322		11,572.23
University of Tennessee	TVA PO #624673 Bray	62 / PO #624673		3,329.72
University of Tennessee	TVA PO 584302-1 Flood Analysis 13 Taylor	62 / PO #584302-1		(184.61)
University of Tennessee	TVA PO 679532 Mesh Demo 14 Karman	62 / PO 679532		10,000.00
University of Tennessee	TVA PO 816023 Paddling Map 15 Carroll	62 / PO 816023		10,570.42
University of Tennessee	TVA PO# 751482 7493 Hollenbach	62 / PO# 751482 7493		7,551.18
University of Tennessee	TVA PO# 799459-2 7493 Hollenbach	62 / PO# 799459-2 7493		644.95
University of Tennessee	TVA PO#703022-2 GIC due to GMD 14 Eltom	62 / PO 703022-2		47,279.91
University of Tennessee	TVA PO#804832-1 99998950 Papanicolaou	62 / PO#804832-1 99998950		64,394.67
University of Tennessee	TVA Propagation Vaccinium elliottii-Wadl	62 / PO 666420		1,819.39
University of Tennessee	TVA Visitor Impact on Reservoirs-Poudyal	62 / 766357		15.93
University of Tennessee	TVA-Revision 1 Wastewater Mgt-Buchanan	62 / 84773		(754.07)
Subtotal Direct Programs			$	266,034.07

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through The Nature Conservancy				
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	62 / THWI 07		$ 1,802.06
Subtotal Pass-Through Programs				$ 1,802.06
Subtotal Tennessee Valley Authority				$ 267,836.13
Department of Veterans Affairs				
Direct Programs				
Middle Tennessee State University	MTSU-Systems Redesign	64 / VA249-15-P-1620		$ 7,399.21
University of Tennessee	VA Medical Center Agmt-Slominski	64 / UNKNOWN		27,020.71
University of Tennessee	VA Medical Center IPA Agreement	64 / UNKNOWN		(25,171.58)
University of Tennessee	Veterans Admin Medical Ctr IPA Hopko	64 / IPA DATED 7/11/2014		2,500.64
Subtotal Direct Programs				$ 11,748.98
Passed Through University of Pittsburgh				
University of Tennessee	Univ of Pittsburgh VA OR Schedulin Shylo	64 / 0039825-1		$ 27,996.53
Subtotal Pass-Through Programs				$ 27,996.53
Subtotal Department of Veterans Affairs				$ 39,745.51
Environmental Protection Agency				
Office of Air and Radiation				
Direct Programs				
University of Tennessee	Air Pollution Control Program Support	66.001		$ (1,557.16)
University of Tennessee	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		38,411.61
Subtotal Direct Programs				$ 36,854.45
Passed Through Shelby County Health Department				
Middle Tennessee State University	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034 / 95490112	$ 55,356.37	
University of Memphis	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034 / CA1315008	93,349.11	$ 148,705.48
Subtotal Pass-Through Programs				$ 148,705.48
Subtotal Office of Air and Radiation				$ 185,559.93

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Office of Enforcement and Compliance Assurance				
Passed Through Community Development Council of Greater Memphis, Incorporated				
University of Memphis	Environmental Justice Small Grant Program	66.604 / Ozdenerol S2781		$ 2,067.92
Subtotal Office of Enforcement and Compliance Assurance				$ 2,067.92
Office of Research and Development (ORD)				
Direct Programs				
University of Tennessee	P3 Award: National Student Design Competition for Sustainability	66.516		$ 18,755.37
Subtotal Office of Research and Development (ORD)				$ 18,755.37
Other Programs				
Direct Programs				
University of Memphis	EPA Energy Conservation Training	66 / 1304MG3001	$ 1,911.95	
University of Memphis	EPA Energy Conservation Training	66 / 1304TC3027	(491.85)	
University of Memphis	EPA Energy Conservation Training	66 / 1404MG 4005	5,880.31	
University of Memphis	EPA Energy Conservation Training	66 / T1404TG4014	12,162.23	$ 19,462.64
University of Tennessee	EPA Reserve Program Land-Hellwinckel	66 / PR-ORD-12-03529		(54.78)
Subtotal Direct Programs				$ 19,407.86
Passed Through Alaska Department of Environment Conservation				
University of Tennessee	Alaska-DEC(CleanupCalculator)-Dolislager	66 / MOU DATED 11-21-13		$ 38,903.68
Subtotal Pass-Through Programs				$ 38,903.68
Subtotal Other Programs				$ 58,311.54
Subtotal Environmental Protection Agency				$ 264,694.76
Nuclear Regulatory Commission				
Direct Programs				
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		$ 375,869.67
University of Tennessee	U.S. Nuclear Regulatory Commission Office of Research Financial Assistance Program	77.009		69,780.75
Subtotal Nuclear Regulatory Commission				$ 445,650.42
Department of Energy				
Direct Programs				
Tennessee Technological University	Office of Science Financial Assistance Program	81.049	$ 105,166.13	

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Office of Science Financial Assistance Program	81.049	67,418.80	
University of Tennessee	Office of Science Financial Assistance Program	81.049	5,516,564.68	$ 5,689,149.61
University of Tennessee	University Coal Research	81.057		170,136.49
University of Tennessee	Conservation Research and Development	81.086		96,977.75
Education	ARRA-Renewable Energy Research and Development	81.087		40,941.12
Tennessee State University	Fossil Energy Research and Development	81.089	$ 129,219.90	
Tennessee Technological University	Fossil Energy Research and Development	81.089	85,649.74	
University of Tennessee	Fossil Energy Research and Development	81.089	156,590.64	371,460.28
University of Tennessee	Stewardship Science Grant Program	81.112		1,439,082.48
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113		377,825.44
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121		1,199,559.15
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123		230,733.84
University of Tennessee	Advanced Research Projects Agency - Energy	81.135		1,379,284.52
Subtotal Direct Programs				$ 10,995,150.68
Passed Through Georgia Institute of Technology				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / RD059-S1	$ 117,949.77	
University of Tennessee	Office of Science Financial Assistance Program	81.049 / RD537-S1	79,720.05	$ 197,669.82
Passed Through Louisiana State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 44159-6		124,065.61
Passed Through Oregon State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / F0760B-A		57,396.95
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / G0150A-A		55,654.62
Passed Through Princeton University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 00001871		7,740.04
Passed Through Purdue University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 4105-65002	$ 59,761.96	
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 4105-29625 MOD 3	5,596.38	65,358.34
Passed Through The Pennsylvania State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 4230-UT-DOE-5267		40,360.06

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through The Samuel Roberts Noble Foundation, Incorporated				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 2012-961-002		55,259.62
Passed Through University Corporation for Atmospheric Research				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / Z12-93537		68,311.85
Passed Through University of California, Berkeley				
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 00007727		8,984.37
Passed Through University of Notre Dame				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 202373	$ 148,440.71	
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 202383UTK	43,069.98	
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 202373	19,288.97	210,799.66
Passed Through University of Illinois				
University of Tennessee	University Coal Research	81.057 / 2013-04279-0		25,554.99
Passed Through South Dakota State University				
University of Tennessee	Regional Biomass Energy Programs	81.079 / 3TA157		32,712.44
University of Tennessee	Renewable Energy Research and Development	81.087 / 3TB157		8,621.74
Passed Through Fraunhofer USA, Incorporated				
University of Tennessee	Conservation Research and Development	81.086 / DE-EE0006715-UTK		63,503.92
Passed Through Texas A&M University				
University of Tennessee	Renewable Energy Research and Development	81.087 / 06-S140675		11,407.26
Passed Through Rutgers, The State University of New Jersey				
University of Tennessee	Stewardship Science Grant Program	81.112 / 5110		376,059.39
Passed Through Lehigh University				
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / 543167-78001		33,030.67
Passed Through University of California, Irvine				
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / 2014-3036		16,101.14
Passed Through University of Michigan				
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / 3002964739		90,780.52
University of Tennessee	Univ of Michigan Sub #3002412323 Wirth	81 / 3002412323		147,356.98

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Electric Power Research Institute				
University of Tennessee	Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122 / EP-P46540/C19974		92,266.26
Passed Through Florida Agricultural and Mechanical University				
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123 / DE-NA0002630		11,885.12
Passed Through Prairie View A&M University				
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123 / DE-AC52-06NA25396	$ 46,977.98	
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123 / DE-NA0001861	8,370.47	55,348.45
Passed Through Argonne National Laboratory				
University of Tennessee	Argonne Natl Lab 2J-30081-0001A Ostrowsk	81 / 2J-30081		(647.80)
University of Tennessee	Argonne Natl Lab 3F-32544 Dongarra	81 / 3F-32544		151,259.75
University of Tennessee	Argonne Natl Lab 4F-30621 Greene	81 / 4F-30621		33,232.94
University of Tennessee	Argonne Natl Lab 4F-32041 Ruggles	81 / 4F-32041		13,443.38
Passed Through Battelle, Limited Liability Company				
University of Memphis	Robust Network Algorithms	81 / 4000127414		77,098.34
Passed Through Battelle Memorial Institute				
University of Tennessee	Battelle Mem Inst PNNL-256994-Jakowski	81 / 256994		3,846.87
University of Tennessee	Battelle Memorial Inst 248092 Coble	81 / 248092		29,806.44
University of Tennessee	Battelle Memorial Inst PNNL 194994 Blalo	81 / 194994		324.62
University of Tennessee	Battelle Memorial Inst PNNL 218860 Coble	81 / 218860		50,289.87
University of Tennessee	Battelle Memorial Inst PNNL 248914 Coble	81 / 248914		20,491.69
Passed Through Fermi Research Alliance, Limited Liability Company				
University of Tennessee	Fermi Research Alliance 618326 Spanier	81 / 618326		9,725.54
University of Tennessee	Fermi Research Alliance, LLC - Spanier	81 / P. O. # 580849 REV#4		6,962.60
Passed Through Lawrence Berkeley National Laboratory				
University of Tennessee	Lawrence Berkeley Nat Lab 7229788 Hazen	81 / 7229788		3,108.54
University of Tennessee	Lawrence Berkeley Natl Lab 6956606 Liu	81 / 6956606 MOD 4		23,542.49
Passed Through Lawrence Livermore National Laboratory				
University of Tennessee	LLNL B612792-Kamyshkov	81 / B612792		12,906.28

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through National Renewable Energy Laboratory				
University of Tennessee	NREL ZCO-0-40616-01 C/S Zawodzinski 12	81 / ZCO-0-40616-01-MOD 1		7,218.89
Passed Through North Carolina State University				
University of Tennessee	NC State Univ-Sub2010-1691-01 Weber Yrs2	81 / SUB2010-1691-01		(1,049.83)
Passed Through Oak Ridge Associated Universities				
University of Tennessee	ORAU SubC 600139 S BROOKS	81 / SUBC 600139		12,464.87
Passed Through UT-Battelle, Limited Liability Company				
Tennessee Technological University	Environmental Remediation of Radioactive Waste and Chemical Process of Spent Nuclear Fuel	81 / 4000101346 MOD 12		49,747.84
Tennessee Technological University	Resiliency Techniques for Large-Scale and Heterogeneous Environments	81 / 4000112013 MOD 04		17,244.08
Tennessee Technological University	Secure Computing Enclaves	81 / 4000134889 MOD 1		93,561.15
Tennessee Technological University	Stonecipher Professor of Distinction Joint Faculty Agreement with ORNL	81 / 4000102091 MOD 11		112,428.88
University of Tennessee	UT-Battelle	81 / B0199BTL	$ 22,479,530.17	
University of Tennessee	ARRA-UT-Battelle	81 / B0199BTL	25,455.96	22,504,986.13
Subtotal Pass-Through Programs				$ 25,088,223.38
Subtotal Department of Energy				$ 36,083,374.06

Department of Education

Institute of Education Sciences

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
Education	Education Research, Development and Dissemination	84.305	$ 224,368.46	
University of Memphis	Education Research, Development and Dissemination	84.305	107,459.81	
University of Tennessee	Education Research, Development and Dissemination	84.305	89,490.28	$ 421,318.55
University of Tennessee	Research in Special Education	84.324		342,640.90
Subtotal Direct Programs				$ 763,959.45
Passed Through Georgia State University				
University of Memphis	Education Research, Development and Dissemination	84.305 / SP00010952-03		$ 442,876.58
Passed Through University of Wisconsin-Madison				
University of Memphis	Education Research, Development and Dissemination	84.305 / 480K303		134,711.60
Subtotal Pass-Through Programs				$ 577,588.18
Subtotal Institute of Education Sciences				$ 1,341,547.63

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Office of Elementary and Secondary Education				
Passed Through Virginia Department of Education				
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 780-86788-S287C120047	$ 13,660.25	
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 780-86788-S287C130047	72,668.64	$ 86,328.89
Passed Through Bedford County Department of Education				
Middle Tennessee State University	Mathematics and Science Partnerships	84.366 / 11-14-14 GG		148,496.90
Subtotal Office of Elementary and Secondary Education				$ 234,825.79
Office of Innovation and Improvement				
Passed Through Hardin County Schools				
University of Memphis	Fund for the Improvement of Education	84.215 / Q215E110461		$ 29,707.95
Passed Through National Board for Professional Teaching Standards				
University of Memphis	Investing in Innovation (i3) Fund	84.411 / ATLAS		60,000.00
Passed Through Smithsonian Institution				
University of Memphis	ARRA-Investing in Innovation (i3) Fund	84.411 / 11-SUBC-440-0000220859		525,212.46
Subtotal Office of Innovation and Improvement				$ 614,920.41
Office of Postsecondary Education				
Direct Programs				
University of Memphis	Centers for International Business Education	84.220		$ 84,642.66
University of Tennessee	Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407		263,527.42
Subtotal Direct Programs				$ 348,170.08
Passed Through University of Minnesota				
University of Memphis	Fund for the Improvement of Postsecondary Education	84.116 / A004497004		$ 15,550.09
Subtotal Pass-Through Programs				$ 15,550.09
Subtotal Office of Postsecondary Education				$ 363,720.17

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Other Programs				
Passed Through Battelle, Limited Liability Company				
University of Memphis	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / ARRA 366844		$ 153,175.07
Passed Through Vanderbilt University				
University of Tennessee	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 2706-018203		178,325.81
Subtotal Other Programs				$ 331,500.88
Subtotal Department of Education				$ 2,886,514.88
National Archives and Records Administration				
Direct Programs				
University of Tennessee	National Historical Publications and Records Grants	89.003		$ 174,172.56
Subtotal National Archives and Records Administration				$ 174,172.56
Department of Health and Human Services				
Administration for Community Living				
Passed Through Knoxville-Knox County Community Action Committee				
University of Tennessee	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048 / DATED 05-23-2014	$ 27,579.36	
University of Tennessee	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048 / DHHS RND #3	49,144.27	$ 76,723.63
Passed Through Texas A&M University				
University of Memphis	ARRA-Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048 / S120018		(0.44)
Passed Through Vanderbilt University				
University of Tennessee	Developmental Disabilities Projects of National Significance	93.631 / 2653-015311		13,975.08
Subtotal Administration for Community Living				$ 90,698.27
Agency for Healthcare Research and Quality				
Direct Programs				
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226		$ 261,364.87
Subtotal Agency for Healthcare Research and Quality				$ 261,364.87

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Centers for Disease Control and Prevention				
Direct Programs				
University of Tennessee	Injury Prevention and Control Research and State and Community Based Programs	93.136		$ 108,957.86
Subtotal Direct Programs				$ 108,957.86
Passed Through University of Massachusetts-Worchester				
East Tennessee State University	Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135 / 6145605/RFS2013068		$ 45,372.06
Passed Through University of North Carolina				
University of Tennessee	Disabilities Prevention	93.184 / 5100502	$ 6,713.88	
University of Tennessee	Disabilities Prevention	93.184 / 5-42322	3,704.40	10,418.28
Passed Through Colorado State University				
University of Tennessee	Occupational Safety and Health Program	93.262 / G004521		65,899.38
Passed Through University of Kentucky				
University of Tennessee	Occupational Safety and Health Program	93.262 / 3048111844-15-057		12,025.42
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	Occupational Safety and Health Program	93.262 / 3048110720-14-118		495.01
Passed Through Hemophilia of Georgia, Incorporated				
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / 5 H30MC24046-03	$ 15,917.22	
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / 6 H30 MC24046-02	(0.01)	15,917.21
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / IP000489		2,734.09
Subtotal Pass-Through Programs				$ 152,861.45
Subtotal Centers for Disease Control and Prevention				$ 261,819.31
Centers for Medicare and Medicaid Services				
Direct Programs				
University of Tennessee	Health Care Innovation Awards (HCIA)	93.610		$ 930,517.94

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
University of Tennessee	Strong Start for Mothers and Newborns	93.611				12,393.95
Subtotal Direct Programs					$	942,911.89
Passed Through UT Medical Group, Incorporated						
University of Tennessee	Strong Start for Mothers and Newborns	93.611 / 1D1CMS331154-01-00			$	11,798.51
Subtotal Pass-Through Programs					$	11,798.51
Subtotal Centers for Disease Control and Prevention					$	954,710.40
Food and Drug Administration						
Direct Programs						
University of Tennessee	Food and Drug Administration_ Research	93.103			$	23,827.02
Subtotal Direct Programs					$	23,827.02
Passed Through Auburn University						
University of Memphis	Food and Drug Administration_ Research	93.103 / 14-AUFSI-360490-UM			$	25,534.39
Subtotal Pass-Through Programs					$	25,534.39
Subtotal Food and Drug Administration					$	49,361.41
Health Resources and Services Administration						
Direct Programs						
University of Tennessee	Nursing Workforce Diversity	93.178			$	15,943.02
Subtotal Health Resources and Services Administration					$	15,943.02
National Institutes of Health						
Direct Programs						
University of Memphis	Environmental Health	93.113	$	207,541.46		
University of Tennessee	Environmental Health	93.113		645,672.25	$	853,213.71
University of Tennessee	Oral Diseases and Disorders Research	93.121				253,523.85
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143				71,697.33
University of Memphis	Research Related to Deafness and Communication Disorders	93.173	$	665,020.09		
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173		400,250.83		1,065,270.92
University of Tennessee	National Center on Sleep Disorders Research	93.233				423,093.66
East Tennessee State University	Mental Health Research Grants	93.242	$	58,919.48		
University of Tennessee	Mental Health Research Grants	93.242		674,407.57		733,327.05
University of Memphis	Alcohol Research Programs	93.273	$	392,773.66		
University of Tennessee	Alcohol Research Programs	93.273		2,393,833.59		2,786,607.25

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	Drug Abuse and Addiction Research Programs	93.279	$ 683,154.23	
University of Memphis	Drug Abuse and Addiction Research Programs	93.279	383,135.73	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279	272,285.77	1,338,575.73
University of Memphis	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	$ 1,617,146.82	
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	101,122.22	1,718,269.04
East Tennessee State University	Minority Health and Health Disparities Research	93.307		81,905.40
University of Tennessee	Research Infrastructure Programs	93.351		317,600.52
University of Tennessee	Nursing Research	93.361		245,558.04
University of Tennessee	National Center for Research Resources	93.389		245,923.31
Tennessee State University	Cancer Cause and Prevention Research	93.393	$ 790,515.37	
University of Memphis	Cancer Cause and Prevention Research	93.393	296,669.41	
University of Tennessee	Cancer Cause and Prevention Research	93.393	1,365,378.12	2,452,562.90
East Tennessee State University	Cancer Detection and Diagnosis Research	93.394	$ 458,650.69	
University of Memphis	Cancer Detection and Diagnosis Research	93.394	14,305.09	
University of Tennessee	Cancer Detection and Diagnosis Research	93.394	96,917.12	569,872.90
University of Tennessee	Cancer Treatment Research	93.395		1,170,508.92
University of Tennessee	Cancer Biology Research	93.396		289,743.49
University of Tennessee	Cancer Research Manpower	93.398		50,343.30
East Tennessee State University	ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702		21,812.40
East Tennessee State University	Cardiovascular Diseases Research	93.837	$ 416,253.68	
University of Memphis	Cardiovascular Diseases Research	93.837	118,558.01	
University of Tennessee	Cardiovascular Diseases Research	93.837	7,063,332.02	7,598,143.71
University of Tennessee	Lung Diseases Research	93.838		1,039,283.71
University of Tennessee	Blood Diseases and Resources Research	93.839		(5,921.30)
University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	93.846	$ 40,874.92	
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846	1,705,146.24	1,746,021.16
East Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	$ 119,732.51	
Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	31,876.20	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	4,164,712.17	4,316,320.88
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	$ 13,717.25	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2,339,282.45	2,352,999.70

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	Allergy and Infectious Diseases Research	93.855	$ 632,076.93	
University of Memphis	Allergy and Infectious Diseases Research	93.855	766,565.13	
University of Tennessee	Allergy and Infectious Diseases Research	93.855	2,871,751.31	4,270,393.37
University of Tennessee	Microbiology and Infectious Diseases Research	93.856		456,080.15
East Tennessee State University	Biomedical Research and Research Training	93.859	$ 1,058,669.44	
Middle Tennessee State University	Biomedical Research and Research Training	93.859	248,480.73	
University of Memphis	Biomedical Research and Research Training	93.859	84,327.41	
University of Tennessee	Biomedical Research and Research Training	93.859	2,579,184.92	3,970,662.50
East Tennessee State University	Child Health and Human Development Extramural Research	93.865	$ 10,892.62	
Middle Tennessee State University	Child Health and Human Development Extramural Research	93.865	107,561.96	
University of Tennessee	Child Health and Human Development Extramural Research	93.865	916,292.71	1,034,747.29
East Tennessee State University	Aging Research	93.866	$ 282,328.16	
University of Tennessee	Aging Research	93.866	1,545,048.84	1,827,377.00
University of Memphis	Vision Research	93.867	$ 246,264.07	
University of Tennessee	Vision Research	93.867	2,463,321.05	2,709,585.12
Subtotal Direct Programs				$ 46,005,103.01
Passed Through The Pennsylvania State University				
University of Tennessee	Environmental Health	93.113 / 5054-UTHSC-DHHS-2614		$ 31,307.82
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / 4694 UT DHHS 1670		11,197.45
Passed Through Tulane University				
University of Memphis	Environmental Health	93.113 / TUL-HSC-512-13/14		7,641.26
Passed Through Duke University				
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143 / 15-NIH-1022		18,241.16
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 12-NIH-1032		96,090.68
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 203-0310		113,845.56
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD057956		2,178.84
Passed Through Louisiana State University				
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143 / 79218		262,132.44

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through University of Maryland, Baltimore				
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143 / 15348		4,263.84
Passed Through European Molecular Biology Laboratory				
University of Tennessee	Human Genome Research	93.172 / HG003345		51,071.52
Passed Through University of Iowa				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / UNKNOWN		2,900.95
Passed Through Massachusetts General Hospital				
University of Tennessee	Research and Training in Complementary and Integrative Health	93.213 / AT000613		43,003.55
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS052592		33,855.47
Passed Through Texas Tech University				
University of Tennessee	Research and Training in Complementary and Integrative Health	93.213 / 21F096-01		3,574.99
University of Tennessee	Cancer Treatment Research	93.395 / 1 R01 CA 186662-01		20,928.93
Passed Through University of Pennsylvania				
University of Tennessee	Research and Training in Complementary and Integrative Health	93.213 / 560251		(2,074.06)
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 562528	$ 2,120.19	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 565003	8,034.78	10,154.97
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 558624		176,865.49
Passed Through New York University				
University of Tennessee	Mental Health Research Grants	93.242 / 12-01801 AMEND 4		66,069.14
Passed Through University of California, San Francisco				
University of Memphis	Mental Health Research Grants	93.242 / 6705SC		3,332.56
Passed Through Vanderbilt University				
Middle Tennessee State University	Mental Health Research Grants	93.242 / 21357-S1	$ 31,014.99	
University of Tennessee	Mental Health Research Grants	93.242 / VUMC 38103	21,472.48	52,487.47
University of Tennessee	Lung Diseases Research	93.838 / VUMC 38680		328,095.67
Passed Through Washington University				
University of Tennessee	Mental Health Research Grants	93.242 / WU-14-114	$ 32,713.58	
University of Tennessee	Mental Health Research Grants	93.242 / WU-15-134	19,668.44	52,382.02

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Jackson Laboratory				
University of Tennessee	Alcohol Research Programs	93.273 / AA018776-04PO 202070		69,820.60
Passed Through Boston University				
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / 4500001591		21,572.09
Passed Through Florida International University				
University of Memphis	Drug Abuse and Addiction Research Programs	93.279 / 800001039-02		70.80
Passed Through University of Chicago				
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / FP056206-C		467,481.70
Passed Through Northwestern University				
University of Memphis	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / SP0009270-PROJ0007233		12,773.86
Passed Through University of Nebraska				
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 34-2005-2064-001		9,449.34
Passed Through Meharry Medical College				
University of Tennessee	Minority Health and Health Disparities Research	93.307 / 080807VMR156 S2		16,062.08
Passed Through University of Pittsburgh				
University of Tennessee	Nursing Research	93.361 / 0019358 (122630-3)		133,381.53
University of Memphis	Cancer Cause and Prevention Research	93.393 / 19106		39,133.99
University of Tennessee	Cardiovascular Diseases Research	93.837 / 0041597(125465-6)		6,054.65
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 5 U01 NS 081041-02	$ 951.74	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS081041	2,314.66	3,266.40
University of Tennessee	Biomedical Research and Research Training	93.859 / 0040632 (124394-2)		100,587.43
University of Tennessee	Aging Research	93.866 / 002882 (123225-1)		11,626.97
Passed Through Albert Einstein College of Medicine				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / CA77290		1,555.42
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 111725030-7570212	$ 8,352.54	
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 111725040-7630350	9,956.72	18,309.26

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Cancer Treatment Research	93.395 / CA081457		38,889.00
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 111610030-7468997	$ (9,581.07)	
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 111610050-7583207	38,008.13	
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 111663040-7546097	(10,994.01)	
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 111668090-7555613	(1,268.10)	
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 112021010-7602557	124,778.35	
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / AI090810	137,562.75	278,506.05
Passed Through The Miriam Hospital				
University of Tennessee	Cancer Detection and Diagnosis Research	93.394 / 710-9801		18,514.49
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 710-9906		26,679.36
Passed Through National Childhood Cancer Foundation				
East Tennessee State University	Cancer Treatment Research	93.395 / 98543-1033		199.00
Passed Through Southwest Oncology Group				
University of Tennessee	Cancer Treatment Research	93.395 / CA32102-SWOG	$ 4,565.43	
University of Tennessee	Cancer Treatment Research	93.395 / U10CA037429	7,698.63	12,264.06
Passed Through University of Rochester				
University of Tennessee	Cancer Centers Support Grants	93.397 / 415970-G		(60.00)
Passed Through Roger Williams Medical Center				
East Tennessee State University	Cardiovascular Diseases Research	93.837 / 8525		20,811.43
Passed Through Temple University				
University of Tennessee	Cardiovascular Diseases Research	93.837 / 254224-UTK		22,834.74
Passed Through The Methodist Hospital Research Institute				
University of Tennessee	Cardiovascular Diseases Research	93.837 / 15420003-0041		9,197.59
Passed Through University of Michigan				
University of Tennessee	Cardiovascular Diseases Research	93.837 / 3001621714		2,028.96
Passed Through University of Texas				
University of Tennessee	Cardiovascular Diseases Research	93.837 / 0010610j		60,702.21
Passed Through University of California, Berkeley				
University of Tennessee	Lung Diseases Research	93.838 / 6207sc		13,429.41
University of Tennessee	Allergy and Infectious Diseases	93.855 / 46049851-001		43,884.61
Passed Through Children's Research Institute				
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / 1 P50 AR 060836	$ 2,905.10	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / 1 R01 AR 062380	2,893.82	5,798.92
Passed Through Case Western Reserve University				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK094157	$ (74.71)	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / RES507528	(1,008.96)	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / RES508615	1,600.52	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / RES509266	131,498.79	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / RES509469	3,217.41	135,233.05
Passed Through Children's Hospital Medical Center				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 133580		8,753.54
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 107759		16,858.20
Passed Through Eastern Virginia Medical School				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK104166		2,638.29
Passed Through George Washington University				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / S-GRD1213-KR32	$ (71.76)	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / S-GRD1314-KR32	58,315.23	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / S-GRD1415-AC32	59,985.12	118,228.59
Passed Through Tufts Medical Center				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 5008753-SERV		124,309.20
Passed Through University of California, Irvine				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 2014-3099		78,454.99
University of Tennessee	Aging Research	93.866 / 2014-3104		57,285.50
Passed Through University of Missouri-Kansas City				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 0056364/00043127		257,355.64
Passed Through University of South Carolina				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 15-2750		20,454.58
Passed Through University of Washington				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 714882		4,158.41

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Emory University				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS065701	$ 1.37	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS071867-S845091	8,349.79	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / S310099	53,419.36	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / T62277	104,975.37	166,745.89
University of Tennessee	Vision Research	93.867 / T289010		11,472.36
Passed Through Mayo Clinic				
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 63626449	$ 27,272.13	
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 63898326	28,866.51	56,138.64
Passed Through University of Louisville Research Foundation				
East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / ULRF 11-0730-01		226,645.69
Passed Through Brentwood Biomedical Research Institute, Incorporated				
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / AI034431		118,070.75
Passed Through Institute for Clinical Research, Incorporated				
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / AI068641		1,190.28
Passed Through The J. David Gladstone Institutes				
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / R01952-A		60,199.06
Passed Through University of Louisville				
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / ULRF 15-0658-01		13,266.82
Passed Through University of Oklahoma				
University of Tennessee	Allergy and Infectious Diseases Research	93.855 / 2015-13		16,634.37
Passed Through Baylor College of Medicine				
University of Tennessee	Biomedical Research and Research Training	93.859 / 101893678	$ (2,535.84)	
University of Tennessee	Biomedical Research and Research Training	93.859 / 102053432	24,975.00	22,439.16

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Memorial Sloan Kettering Cancer Center				
University of Tennessee	Biomedical Research and Research Training	93.859 / BD517143		4,878.70
Passed Through North Carolina State University				
University of Tennessee	Biomedical Research and Research Training	93.859 / 2015-2097-02		45,541.51
Passed Through Rosalind Franklin University of Medicine and Science				
University of Tennessee	Biomedical Research and Research Training	93.859 / 212970UTHSC		37,750.92
Passed Through University of Utah				
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD047349		(0.01)
Passed Through Minneapolis Medical Research Foundation				
University of Tennessee	Aging Research	93.866 / AG029824		2,358.80
Passed Through Wake Forest University				
University of Tennessee	Aging Research	93.866 / WFUHS 116814		1,901.13
Subtotal Pass-Through Programs				$ 4,463,337.73
Subtotal National Institutes of Health				$ 50,468,440.74
Office of the Secretary				
Passed Through Shelby County Office of Early Childhood and Youth				
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA-1214256	$ (204.53)	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA-1314256	0.03	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA-1414256	25,314.43	$ 25,109.93
Subtotal Office of the Secretary				$ 25,109.93
Substance Abuse and Mental Health Services Administration				
Direct Programs				
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		$ 240,416.68
Subtotal Direct Programs				$ 240,416.68
Passed Through Shelby County Government				
University of Memphis	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104 / CA1314098		$ 41,496.69

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through The Healing Center Ministries, Incorporated				
University of Memphis	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104 / 100114-2		30,683.32
Passed Through Buffalo Valley, Incorporated				
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243 / 1H79T1025630-01		51,251.62
Subtotal Pass-Through Programs			$	123,431.63
Subtotal Substance Abuse and Mental Health Services Administration			$	363,848.31
Other Programs				
Direct Programs				
University of Tennessee	Digestive Diseases and Nutrition Research	93.848	$	1,119,829.31
Subtotal Direct Programs			$	1,119,829.31
Passed Through Buffalo Valley, Incorporated				
University of Memphis	Consolidated Knowledge Development and Application (KD&A) Program	93.230 / T109006	$	18,090.55
Passed Through Community Alliance for the Homeless				
University of Tennessee	Child Abuse and Neglect Discretionary Activities	93.670 / 90CA1792		132,316.64
Passed Through LeBonheur Community Health and Well-Being				
University of Tennessee	Child Abuse and Neglect Discretionary Activities	93.670 / 90CA1771		72,629.17
Passed Through Oregon Health and Science University				
University of Tennessee	Project Grants for Renovation or Construction at Tertiary Perinatal Facilities	93.935 / 1002304_TN		44,222.58
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	St Jude Subcont HHSN266200700005C	93 / HSSN266200700008		(15,667.10)
Passed Through University of Alabama at Birmingham				
University of Tennessee	Univ Alabama Sub HHSN268200900047C	93 / 000336417-005		216,053.33
University of Tennessee	ARRA-Univ Alabama Residual Funds-Johnson	93 / 000336417-030		2,390.02

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through University of California, Berkeley				
University of Tennessee	Univ Calif Sub HHSN271201200008C	93 / HHSN271201200008C		121,312.55
Passed Through University of South Florida				
University of Tennessee	USF TrialNet Sub HHSN267200800019C	93 / HHSN267200800019C		21,645.62
Passed Through Wake Forest University				
University of Tennessee	Wake Forest Sub HHSN268200900040C	93 / WFUHS 330181		43,787.65
University of Tennessee	Wake Forest Sub HHSN268201100004C	93 / WFUHS 30305		59,546.90
Subtotal Pass-Through Programs			$	716,327.91
Subtotal Other Programs			$	1,836,157.22
Subtotal Department of Health and Human Services			$	54,327,453.48
Department of Homeland Security				
Direct Programs				
Tennessee State University	Scientific Leadership Awards	97.062	$	286,729.23
University of Tennessee	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection	97.077		756,740.07
Subtotal Direct Programs			$	1,043,469.30
Passed Through Norwich University Applied Research Institutes				
University of Memphis	State and Local Homeland Security National Training Program	97.005 / SA 2015-014	$	33,872.11
Passed Through The Center for Rural Development				
University of Tennessee	State and Local Homeland Security National Training Program	97.005 / FY14-K00155-UT-EH		16,940.09
Passed Through University of Texas				
University of Memphis	State and Local Homeland Security National Training Program	97.005 / 26-0800-562		53,483.36
Passed Through Jackson State University				
Tennessee State University	Centers for Homeland Security	97.061 / 2008-ST-061-ND0002-06		42,733.34
Passed Through Northeastern University				
University of Tennessee	Northeastern Univ 505003-78051 Gregor	97 / 505003-78051		74,408.51
Subtotal Pass-Through Programs			$	221,437.41
Subtotal Department of Homeland Security			$	1,264,906.71

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Agency for International Development				
Passed Through University of Memphis Research Foundation				
University of Memphis	USAID Foreign Assistance for Programs Overseas	98.001 / ACRE		$ 65,943.74
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	USAID Foreign Assistance for Programs Overseas	98.001 / 425966-19121		144,975.32
Subtotal Agency for International Development				$ 210,919.06
Total Research and Development Cluster				$ 190,208,785.59
Student Financial Assistance Cluster				
Department of Education				
Direct Programs				
Austin Peay State University	Federal Supplemental Educational Opportunity Grants	84.007	$ 356,585.75	
Chattanooga State Community College	Federal Supplemental Educational Opportunity Grants	84.007	261,255.00	
Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	84.007	81,720.00	
Columbia State Community College	Federal Supplemental Educational Opportunity Grants	84.007	118,870.03	
Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	84.007	92,725.00	
East Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	334,900.00	
Jackson State Community College	Federal Supplemental Educational Opportunity Grants	84.007	207,519.07	
Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	560,123.00	
Motlow State Community College	Federal Supplemental Educational Opportunity Grants	84.007	111,449.17	
Nashville State Community College	Federal Supplemental Educational Opportunity Grants	84.007	274,972.74	
Northeast State Community College	Federal Supplemental Educational Opportunity Grants	84.007	149,349.40	
Pellissippi State Community College	Federal Supplemental Educational Opportunity Grants	84.007	185,935.04	
Roane State Community College	Federal Supplemental Educational Opportunity Grants	84.007	182,541.00	
Southwest Tennessee Community College	Federal Supplemental Educational Opportunity Grants	84.007	498,642.60	
Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	1,167,415.85	
Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	84.007	223,435.01	
University of Memphis	Federal Supplemental Educational Opportunity Grants	84.007	587,717.25	
University of Tennessee	Federal Supplemental Educational Opportunity Grants	84.007	1,023,228.00	
Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	84.007	192,281.00	
Walters State Community College	Federal Supplemental Educational Opportunity Grants	84.007	161,024.00	$ 6,771,688.91

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Austin Peay State University	Federal Work-Study Program	84.033	$ 353,982.38	
Chattanooga State Community College	Federal Work-Study Program	84.033	198,439.40	
Cleveland State Community College	Federal Work-Study Program	84.033	66,508.00	
Columbia State Community College	Federal Work-Study Program	84.033	76,823.80	
Dyersburg State Community College	Federal Work-Study Program	84.033	79,862.08	
East Tennessee State University	Federal Work-Study Program	84.033	678,377.00	
Jackson State Community College	Federal Work-Study Program	84.033	96,102.01	
Middle Tennessee State University	Federal Work-Study Program	84.033	708,371.71	
Motlow State Community College	Federal Work-Study Program	84.033	(89,496.26)	
Nashville State Community College	Federal Work-Study Program	84.033	141,457.34	
Northeast State Community College	Federal Work-Study Program	84.033	145,259.10	
Pellissippi State Community College	Federal Work-Study Program	84.033	132,331.78	
Roane State Community College	Federal Work-Study Program	84.033	167,210.00	
Southwest Tennessee Community College	Federal Work-Study Program	84.033	495,032.00	
Tennessee State University	Federal Work-Study Program	84.033	929,601.65	
Tennessee Technological University	Federal Work-Study Program	84.033	408,892.52	
University of Memphis	Federal Work-Study Program	84.033	705,546.05	
University of Tennessee	Federal Work-Study Program	84.033	1,590,953.88	
Volunteer State Community College	Federal Work-Study Program	84.033	55,067.80	
Walters State Community College	Federal Work-Study Program	84.033	127,654.27	7,067,976.51
Austin Peay State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	$ 886,331.27	
East Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	5,642,335.35	
Jackson State Community College	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	161,962.82	
Middle Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	2,787,061.68	
Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	1,695,840.12	
Tennessee Technological University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	1,083,251.62	
University of Memphis	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	4,312,180.01	
University of Tennessee	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	28,531,143.81	45,100,106.68
Austin Peay State University	Federal Pell Grant Program	84.063	$ 21,316,344.65	
Chattanooga State Community College	Federal Pell Grant Program	84.063	19,480,984.11	
Cleveland State Community College	Federal Pell Grant Program	84.063	7,013,316.27	
Columbia State Community College	Federal Pell Grant Program	84.063	9,772,316.23	
Dyersburg State Community College	Federal Pell Grant Program	84.063	5,154,012.79	
East Tennessee State University	Federal Pell Grant Program	84.063	21,492,579.69	
Jackson State Community College	Federal Pell Grant Program	84.063	13,772,607.94	
Middle Tennessee State University	Federal Pell Grant Program	84.063	38,556,225.00	
Motlow State Community College	Federal Pell Grant Program	84.063	7,533,401.97	
Nashville State Community College	Federal Pell Grant Program	84.063	23,725,095.53	
Northeast State Community College	Federal Pell Grant Program	84.063	13,716,403.79	
Pellissippi State Community College	Federal Pell Grant Program	84.063	16,188,256.55	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Roane State Community College	Federal Pell Grant Program	84.063	13,491,851.28	
Southwest Tennessee Community College	Federal Pell Grant Program	84.063	24,057,572.12	
Tennessee State University	Federal Pell Grant Program	84.063	19,989,852.70	
Tennessee Technological University	Federal Pell Grant Program	84.063	15,094,917.49	
University of Memphis	Federal Pell Grant Program	84.063	35,772,419.00	
University of Tennessee	Federal Pell Grant Program	84.063	57,547,685.41	
Volunteer State Community College	Federal Pell Grant Program	84.063	12,620,631.08	
Walters State Community College	Federal Pell Grant Program	84.063	11,195,302.44	387,491,776.04
Austin Peay State University	Federal Direct Student Loans	84.268	$ 51,590,386.00	
Chattanooga State Community College	Federal Direct Student Loans	84.268	23,921,770.00	
Columbia State Community College	Federal Direct Student Loans	84.268	7,797,342.00	
Dyersburg State Community College	Federal Direct Student Loans	84.268	2,914,825.00	
East Tennessee State University	Federal Direct Student Loans	84.268	94,101,264.00	
Middle Tennessee State University	Federal Direct Student Loans	84.268	106,638,498.00	
Motlow State Community College	Federal Direct Student Loans	84.268	1,160,113.00	
Nashville State Community College	Federal Direct Student Loans	84.268	23,106,096.00	
Pellissippi State Community College	Federal Direct Student Loans	84.268	10,259,033.00	
Tennessee State University	Federal Direct Student Loans	84.268	62,322,436.00	
Tennessee Technological University	Federal Direct Student Loans	84.268	33,252,820.00	
University of Memphis	Federal Direct Student Loans	84.268	118,843,956.00	
University of Tennessee	Federal Direct Student Loans	84.268	294,280,720.00	
Volunteer State Community College	Federal Direct Student Loans	84.268	6,774,799.00	836,964,058.00
Austin Peay State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	$ 190,686.75	
Chattanooga State Community College	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	3,760.00	
East Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	16,712.00	
Middle Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	108,034.00	
Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	204.00	
Tennessee Technological University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	251,473.00	
University of Memphis	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	25,081.00	
University of Tennessee	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	58,938.00	654,888.75
Middle Tennessee State University	Postsecondary Education Scholarships for Veteran's Dependents	84.408		5,311.00
Subtotal Department of Education				$ 1,284,055,805.89

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of Health and Human Services				
Direct Programs				
East Tennessee State University	Nurse Faculty Loan Program (NFLP)	93.264	$ 421,774.60	
University of Tennessee	Nurse Faculty Loan Program (NFLP)	93.264	804,433.64	$ 1,226,208.24
University of Tennessee	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342		1,375,656.72
University of Tennessee	Nursing Student Loans	93.364		65,795.58
University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		621,266.83
Subtotal Department of Health and Human Services				$ 3,288,927.37
Total Student Financial Assistance Cluster				$ 1,287,344,733.26
SNAP Cluster				
Department of Agriculture				
Direct Programs				
Human Services	Supplemental Nutrition Assistance Program	10.551		$ 1,909,112,661.12
Human Services	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ 72,606,729.71	
Labor and Workforce Development	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	1,566,060.08	74,172,789.79
Subtotal Department of Agriculture				$ 1,983,285,450.91
Total SNAP Cluster				$ 1,983,285,450.91
Child Nutrition Cluster				
Department of Agriculture				
Direct Programs				
Education	School Breakfast Program	10.553		$ 102,662,182.32
Agriculture	National School Lunch Program (Noncash Award)	10.555	$ 29,209,269.27	
Education	National School Lunch Program	10.555	269,362,608.23	298,571,877.50
Education	Special Milk Program for Children	10.556		22,005.05
Human Services	Summer Food Service Program for Children	10.559		11,757,225.00
Subtotal Department of Agriculture				$ 413,013,289.87
Total Child Nutrition Cluster				$ 413,013,289.87

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
		Food Distribution Cluster				
		Department of Agriculture				
Direct Programs						
Health	Commodity Supplemental Food Program	10.565	$	901,350.41		
Health	Commodity Supplemental Food Program (Noncash Award)	10.565		2,942,844.00	$	3,844,194.41
Agriculture	Emergency Food Assistance Program (Administrative Costs)	10.568				1,827,330.91
Agriculture	Emergency Food Assistance Program (Food Commodities) (Noncash Award)	10.569				9,825,787.60
Subtotal Department of Agriculture					$	15,497,312.92
Total Food Distribution Cluster					$	15,497,312.92
		Forest Service Schools and Roads Cluster				
		Department of Agriculture				
Direct Programs						
Revenue	Schools and Roads - Grants to States	10.665			$	1,091,799.52
Subtotal Department of Agriculture					$	1,091,799.52
Total Forest Service Schools and Roads Cluster					$	1,091,799.52
		Community Facilities Loans and Grants Cluster				
		Department of Agriculture				
Direct Programs						
Tennessee Technological University	Community Facilities Loans and Grants	10.766			$	25,000.00
Subtotal Department of Agriculture					$	25,000.00
Total Community Facilities Loans and Grants Cluster					$	25,000.00
		Economic Development Cluster				
		Department of Commerce				
Direct Programs						
Roane State Community College	Economic Adjustment Assistance	11.307			$	356,625.84
Subtotal Department of Commerce					$	356,625.84
Total Economic Development Cluster					$	356,625.84

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Section 8 Project-Based Cluster			
Department of Housing and Urban Development			
Direct Programs			
Tennessee Housing Development Agency	Section 8 Housing Assistance Payments Program	14.195	$ 163,175,134.09
Subtotal Department of Housing and Urban Development			$ 163,175,134.09
Total Section 8 Project-Based Cluster			$ 163,175,134.09
Housing Voucher Cluster			
Department of Housing and Urban Development			
Direct Programs			
Tennessee Housing Development Agency	Section 8 Housing Choice Vouchers	14.871	$ 37,191,414.96
Tennessee Housing Development Agency	Mainstream Vouchers	14.879	240,952.00
Subtotal Department of Housing and Urban Development			$ 37,432,366.96
Total Housing Voucher Cluster			$ 37,432,366.96
Fish and Wildlife Cluster			
Department of the Interior			
Direct Programs			
Tennessee Wildlife Resources Agency	Sport Fish Restoration Program	15.605	$ 7,879,760.54
Tennessee Wildlife Resources Agency	Wildlife Restoration and Basic Hunter Education	15.611	9,202,207.47
Subtotal Direct Programs			$ 17,081,968.01
Passed Through Arkansas Game and Fish Commission			
Tennessee Technological University	Wildlife Restoration and Basic Hunter Education	15.611 / SUBAWARD TO F14AF01117	$ 21,414.31
Passed Through Oklahoma Department of Wildlife Conservation			
University of Tennessee	Wildlife Restoration and Basic Hunter Education	15.611 / F14AF00963 W-176-C-1	30,103.20
Passed Through South Carolina Department of Natural Resources			
University of Tennessee	Wildlife Restoration and Basic Hunter Education	15.611 / P24014202015	45,592.68

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues		
Passed Through Texas Parks and Wildlife Department					
University of Tennessee	Wildlife Restoration and Basic Hunter Education	15.611 / 463245			15,658.30
Subtotal Pass-Through Programs				$	112,768.49
Subtotal Department of the Interior				$	17,194,736.50
Total Fish and Wildlife Cluster				$	17,194,736.50
Employment Service Cluster					
Department of Labor					
Direct Programs					
Labor and Workforce Development	Employment Service/Wagner-Peyser Funded Activities	17.207		$	10,762,430.40
Labor and Workforce Development	Disabled Veterans' Outreach Program (DVOP)	17.801			2,511,444.41
Labor and Workforce Development	Local Veterans' Employment Representative Program	17.804			526,237.39
Subtotal Department of Labor				$	13,800,112.20
Total Employment Service Cluster				$	13,800,112.20
WIA Cluster					
Department of Labor					
Direct Programs					
Labor and Workforce Development	WIA Adult Program	17.258		$	15,584,811.24
Labor and Workforce Development	WIA Youth Activities	17.259			15,169,484.22
Labor and Workforce Development	WIA Dislocated Worker Formula Grants	17.278			18,675,307.46
Subtotal Department of Labor				$	49,429,602.92
Total WIA Cluster				$	49,429,602.92
Highway Planning and Construction Cluster					
Department of Transportation					
Direct Programs					
Environment and Conservation	Highway Planning and Construction	20.205	$ 197,513.74		
Transportation	Highway Planning and Construction	20.205	771,664,545.34		
Transportation	ARRA-Highway Planning and Construction	20.205	6,810.18	$	771,868,869.26
Environment and Conservation	Recreational Trails Program	20.219			1,273,152.81
Subtotal Direct Programs				$	773,142,022.07
Passed Through Memphis Urban Area Metropolitan Planning Organization					
University of Memphis	Highway Planning and Construction	20.205 / CA1418107		$	59,218.56

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Passed Through Shelby County Government						
University of Memphis	Highway Planning and Construction	20.205 / CA1315359	$	27,059.36		
University of Memphis	Highway Planning and Construction	20.205 / CA1417151		25,561.09		52,620.45
Passed Through Wisconsin Department of Transportation						
University of Memphis	Highway Planning and Construction	20.205 / 0092-14-15	$	79,582.33		
University of Memphis	Highway Planning and Construction	20.205 / 0092-14-16		89,984.17		169,566.50
Subtotal Pass-Through Programs					$	281,405.51
Subtotal Department of Transportation					$	773,423,427.58
Total Highway Planning and Construction Cluster					$	773,423,427.58

Federal Transit Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number		
Direct Programs				
Transportation	Federal Transit_Capital Investment Grants	20.500	$	1,283,605.77
Subtotal Department of Transportation			$	1,283,605.77
Total Federal Transit Cluster			$	1,283,605.77

Transit Services Programs Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number		
Direct Programs				
Transportation	Job Access And Reverse Commute Program	20.516	$	1,109,591.77
Transportation	New Freedom Program	20.521		378,755.97
Subtotal Department of Transportation			$	1,488,347.74
Total Transit Services Programs Cluster			$	1,488,347.74

Highway Safety Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number		
Direct Programs				
Transportation	State and Community Highway Safety	20.600	$	3,825,674.53
Transportation	State Traffic Safety Information System Improvement Grants	20.610		211,735.49
Transportation	Incentive Grant Program to Increase Motorcyclist Safety	20.612		17,939.26
Transportation	National Priority Safety Programs	20.616		5,743,270.01
Subtotal Direct Programs			$	9,798,619.29

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Passed Through Mississippi State University						
University of Tennessee	State and Community Highway Safety	20.600 / 008616			$	8,458.76
Subtotal Pass-Through Programs					$	8,458.76
Subtotal Department of Transportation					$	9,807,078.05
Total Highway Safety Cluster					$	9,807,078.05
Clean Water State Revolving Fund Cluster						
Environmental Protection Agency						
Direct Programs						
Environment and Conservation	Capitalization Grants for Clean Water State Revolving Funds	66.458	$	42,553,769.84		
Environment and Conservation	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458		52.00	$	42,553,821.84
Subtotal Environmental Protection Agency					$	42,553,821.84
Total Clean Water State Revolving Fund Cluster					$	42,553,821.84
Drinking Water State Revolving Fund Cluster						
Environmental Protection Agency						
Direct Programs						
Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Funds	66.468			$	9,401,471.38
Subtotal Environmental Protection Agency					$	9,401,471.38
Total Drinking Water State Revolving Fund Cluster					$	9,401,471.38
Special Education Cluster (IDEA)						
Department of Education						
Direct Programs						
Education	Special Education_Grants to States	84.027			$	234,972,674.10
Education	Special Education_Preschool Grants	84.173				7,865,922.48
Subtotal Department of Education					$	242,838,596.58
Total Special Education Cluster (IDEA)					$	242,838,596.58
TRIO Cluster						
Department of Education						
Direct Programs						
Austin Peay State University	TRIO_Student Support Services	84.042	$	215,518.22		

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Columbia State Community College	TRIO_Student Support Services	84.042	201,523.60	
East Tennessee State University	TRIO_Student Support Services	84.042	271,335.02	
Middle Tennessee State University	TRIO_Student Support Services	84.042	212,123.68	
Northeast State Community College	TRIO_Student Support Services	84.042	257,522.50	
Pellissippi State Community College	TRIO_Student Support Services	84.042	262,932.14	
Tennessee State University	TRIO_Student Support Services	84.042	11.91	
University of Memphis	TRIO_Student Support Services	84.042	368,896.24	
University of Tennessee	TRIO_Student Support Services	84.042	665,245.22	
Volunteer State Community College	TRIO_Student Support Services	84.042	242,978.50	$ 2,698,087.03
East Tennessee State University	TRIO_Talent Search	84.044	$ 251,248.79	
Middle Tennessee State University	TRIO_Talent Search	84.044	216,056.33	
Tennessee State University	TRIO_Talent Search	84.044	278,713.08	
University of Tennessee	TRIO_Talent Search	84.044	219,994.59	966,012.79
Austin Peay State University	TRIO_Upward Bound	84.047	$ 306,203.17	
Dyersburg State Community College	TRIO_Upward Bound	84.047	285,330.39	
East Tennessee State University	TRIO_Upward Bound	84.047	1,393,482.76	
Southwest Tennessee Community College	TRIO_Upward Bound	84.047	422,690.83	
Tennessee State University	TRIO_Upward Bound	84.047	238,196.17	
University of Tennessee	TRIO_Upward Bound	84.047	1,844,982.65	4,490,885.97
Austin Peay State University	TRIO_Educational Opportunity Centers	84.066	$ 364,343.59	
East Tennessee State University	TRIO_Educational Opportunity Centers	84.066	225,214.51	
University of Tennessee	TRIO_Educational Opportunity Centers	84.066	672,931.06	1,262,489.16
East Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement	84.217		262,161.85
Subtotal Department of Education				$ 9,679,636.80
Total TRIO Cluster				$ 9,679,636.80

School Improvement Grants Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Education	School Improvement Grants	84.377		$ 20,931,123.39
Education	ARRA-School Improvement Grants, Recovery Act	84.388		8,217,315.90
Subtotal Department of Education				$ 29,148,439.29
Total School Improvement Grants Cluster				$ 29,148,439.29

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Aging Cluster				
Department of Health and Human Services				
Direct Programs				
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		$ 6,588,000.00
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		11,954,294.79
Commission on Aging and Disability	Nutrition Services Incentive Program	93.053		1,684,500.00
Subtotal Department of Health and Human Services				$ 20,226,794.79
Total Aging Cluster				$ 20,226,794.79
Health Centers Cluster				
Department of Health and Human Services				
Direct Programs				
East Tennessee State University	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	$ 1,469,385.51	
Health	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	2,945,497.43	$ 4,414,882.94
Subtotal Direct Programs				$ 4,414,882.94
Passed Through Morehouse School of Medicine				
East Tennessee State University	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224 / 2-3-9100-61209		$ 2,593.50
Subtotal Pass-Through Programs				$ 2,593.50
Subtotal Department of Health and Human Services				$ 4,417,476.44
Total Health Centers Cluster				$ 4,417,476.44

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
TANF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Temporary Assistance for Needy Families	93.558		$ 103,464,976.03
Subtotal Department of Health and Human Services				$ 103,464,976.03
Total TANF Cluster				$ 103,464,976.03
CCDF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Child Care and Development Block Grant	93.575		$ 66,624,654.73
Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		53,415,606.67
Subtotal Direct Programs				$ 120,040,261.40
Passed Through Signal Centers, Incorporated				
Tennessee Technological University	Child Care and Development Block Grant	93.575 / RFS#34549-51214	$ 1,094.51	
University of Tennessee	Child Care and Development Block Grant	93.575 / CCR FY 2015	501,937.95	
University of Tennessee	Child Care and Development Block Grant	93.575 / CCR&R	(98.74)	$ 502,933.72
Subtotal Pass-Through Programs				$ 502,933.72
Subtotal Department of Health and Human Services				$ 120,543,195.12
Total CCDF Cluster				$ 120,543,195.12
Medicaid Cluster				
Department of Health and Human Services				
Direct Programs				
Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	93.775		$ 3,332,283.53
Health	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		13,258,113.09
Finance and Administration	Medical Assistance Program	93.778	$ 6,052,107,984.95	
Finance and Administration	ARRA-Medical Assistance Program	93.778	41,883,500.12	6,093,991,485.07
Subtotal Direct Programs				$ 6,110,581,881.69
Passed Through University Health System, Incorporated				
University of Tennessee	Medical Assistance Program	93.778 / GMEP		$ 30,933,556.25

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through University of Maryland			
University of Tennessee	Medical Assistance Program	93.778 / SR00003124 ESURF9366	3,239.13
Subtotal Pass-Through Programs			$ 30,936,795.38
Subtotal Department of Health and Human Services			$ 6,141,518,677.07
Total Medicaid Cluster			$ 6,141,518,677.07
	Disability Insurance/SSI Cluster		
	Social Security Administration		
Direct Programs			
Human Services	Social Security_Disability Insurance	96.001	$ 56,962,118.48
Subtotal Social Security Administration			$ 56,962,118.48
Total Disability Insurance/SSI Cluster			$ 56,962,118.48
Grand Total Federal Assistance			$ 13,982,512,905.97

The accompanying notes are an integral part of this schedule.

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2015, was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires a disclosure of the financial activities of all federally funded programs. To comply with the circular, the Department of Finance and Administration required each department, agency, and institution that expended direct or pass-through federal funding during the year to prepare a schedule of expenditures of federal awards and reconciliations with both the state's accounting system and grantor financial reports. The schedules for the departments, agencies, and institutions were combined to form the Schedule of Expenditures of Federal Awards for the State of Tennessee. The schedules for the Colleges of Applied Technology have been combined with the schedules for the community colleges designated as their lead institutions.

NOTE 2. BASIS OF ACCOUNTING FOR PRESENTATION OF SCHEDULE

The Schedule of Expenditures of Federal Awards is reported on the accrual basis of accounting.

NOTE 3. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and other payments and revenues are combined with federal funds and used to pay benefits under the Unemployment Insurance (CFDA 17.225) program. The state and federal portions of the total expenditures reported in the Schedule of Expenditures of Federal Awards were $291,765,691.69 and $37,673,825.52, respectively.

NOTE 4. LOAN AND LOAN GUARANTEE PROGRAMS

Federal Perkins Loan Program_Federal Capital Contributions (CFDA 84.038); Nurse Faculty Loan Program (NFLP) (CFDA 93.264); Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342); and Nursing Student Loans (CFDA 93.364): Institutions of higher education within the state reporting entity administer these federal student loan programs. Expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards include the value of new loans made during the year, the balance of loans from previous years due to federal continuing compliance requirements, and administrative cost allowances.

Loan balances outstanding at year-end:

Program	CFDA #	Amount Outstanding
Federal Perkins Loan Program_Federal Capital Contributions	84.038	$45,100,106.68
Nurse Faculty Loan Program (NFLP)	93.264	$961,812.24
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	$1,375,656.72
Nursing Student Loans	93.364	$65,795.58

Federal Family Education Loans (CFDA 84.032) and Federal Direct Student Loans (CFDA 84.268): The loans under these programs are made by outside lenders to students at institutions of higher education within the state reporting entity. The institutions are responsible for certain administrative requirements for new loans. As a result, the value of loans made during the year and administrative cost allowances are recognized as expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards. The balance of loans for previous years is not included because the lender accounts for the prior balances.

The Federal Family Education Loans are insured by the Tennessee Student Assistance Corporation (TSAC), a component unit. At June 30, 2015, the insured loans outstanding totaled $2,468,438,060.79.

NOTE 5. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.