

SINGLE AUDIT REPORT

DIVISION OF STATE AUDIT

FOR THE YEAR ENDED JUNE 30, 2016



Justin P. Wilson, Comptroller





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

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

March 22, 2017

The Honorable Bill Haslam, Governor
Members of the General Assembly

Ladies and Gentlemen:

We are pleased to submit the thirty-third *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2016. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Title 2, *Code of Federal Regulations*, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

This *Single Audit Report* reflects federal expenditures of over \$14.4 billion. We noted instances of noncompliance that resulted in qualified opinions on compliance for 5 of the state's 19 major federal programs. In addition, we noted other instances of noncompliance that meet the reporting criteria contained in the Uniform Guidance. 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, 2016, 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 two internal control deficiencies that we considered to be significant deficiencies 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 significant deficiencies in internal control over financial reporting are 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,

A handwritten signature in black ink that reads "Deborah V. Loveless". The signature is written in a cursive style with a large, stylized 'D' and 'L'.

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

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2016**

Table of Contents

	Page
Selected Statistical Data	1
Total Federal Expenditures – Ten-Year Summary	3
Expenditures by Awarding Agency	4
Number of Type A and Type B Programs	5
Type A and Type B Program Expenditures	5
Auditor’s Reports	7
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 <i>Government Auditing Standards</i>	9
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 the Uniform Guidance	11
Auditor’s Findings – Schedule of Findings and Questioned Costs	17
Section I – Summary of Auditor’s Results	19
Section II – Financial Statement Findings	21
Department of Finance and Administration	21
Department of the Treasury	23
Section III – Federal Award Findings and Questioned Costs	24
Department of Education	24
Department of Education	27
Department of Education	30
Department of Education	33
Department of Education	37
Department of Education	43
Department of Education	50
Department of Education	52

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2016**

Table of Contents (continued)

Department of Environment and Conservation	2016-011	61
Department of Finance and Administration	2016-012	65
Department of Human Services	2016-013	66
Department of Human Services	2016-014	68
Department of Human Services	2016-015	81
Department of Human Services	2016-016	96
Department of Human Services	2016-017	112
Department of Human Services	2016-018	119
Department of Human Services	2016-019	128
Department of Human Services	2016-020	142
Department of Human Services	2016-021	151
Department of Human Services	2016-022	161
Department of Human Services	2016-023	168
Department of Human Services	2016-024	189
Department of Human Services	2016-025	194
Department of Human Services	2016-026	205
Department of Human Services	2016-027	212
Department of Human Services	2016-028	219
Department of Human Services	2016-029	222
Department of Human Services	2016-030	238
Department of Human Services	2016-031	243
Department of Human Services	2016-032	252
Department of Human Services	2016-033	255
Department of Human Services	2016-034	263
Department of Human Services	2016-035	270

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2016**

Table of Contents (continued)

Department of Human Services	2016-036	276
Department of Human Services	2016-037	281
Department of Human Services	2016-038	285
Department of Human Services	2016-039	292
Department of Human Services	2016-040	296
Department of Human Services	2016-041	301
Department of Human Services	2016-042	306
Department of Human Services	2016-043	311
Department of Human Services	2016-044	315
Department of Human Services	2016-045	320
Department of Human Services	2016-046	326
Department of Human Services	2016-047	335
Department of Human Services	2016-048	340
Department of Human Services	2016-049	347
Department of Human Services	2016-050	354
Department of Human Services	2016-051	362
Department of Human Services	2016-052	365
Department of Labor and Workforce Development	2016-053	372
Department of Labor and Workforce Development	2016-054	380
Department of Labor and Workforce Development	2016-055	390
Department of Labor and Workforce Development	2016-056	393
Department of Labor and Workforce Development	2016-057	396
Department of Labor and Workforce Development	2016-058	399
Department of Labor and Workforce Development	2016-059	405
Department of Labor and Workforce Development	2016-060	407
Department of Labor and Workforce Development	2016-061	412
Department of Labor and Workforce Development	2016-062	419

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2016**

Table of Contents (continued)

Department of Labor and Workforce Development	2016-063	424
Department of Labor and Workforce Development	2016-064	426
Department of Labor and Workforce Development	2016-065	432
Department of Transportation	2016-066	437
Department of Transportation	2016-067	441
Multiple State Agencies	2016-068	444
Auditee's Section		451
Schedule of Expenditures of Federal Awards		453
Unclustered Federal Programs		453
Clustered Federal Programs		485
Notes to the Schedule of Expenditures of Federal Awards		537

Selected Statistical Data

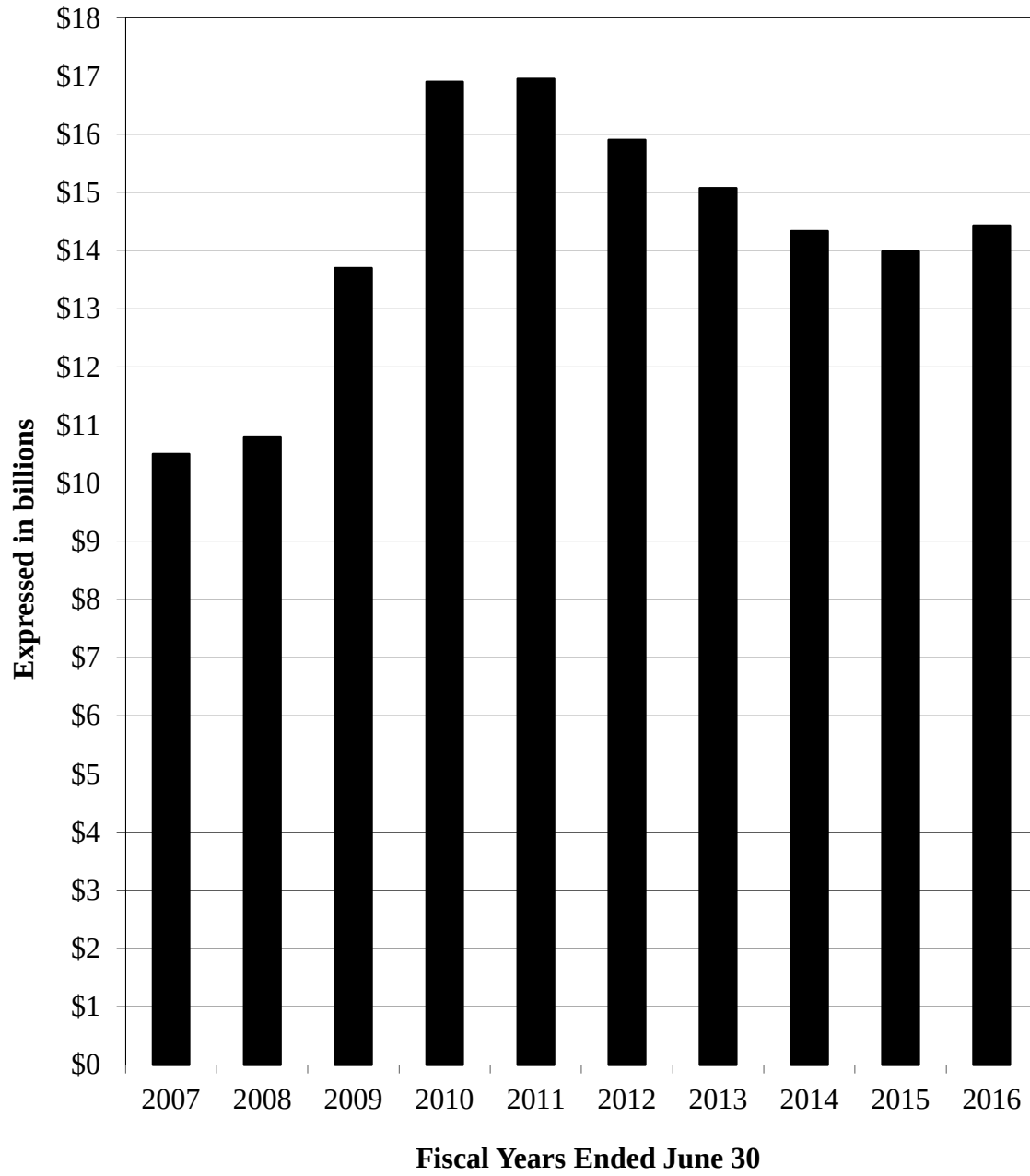
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

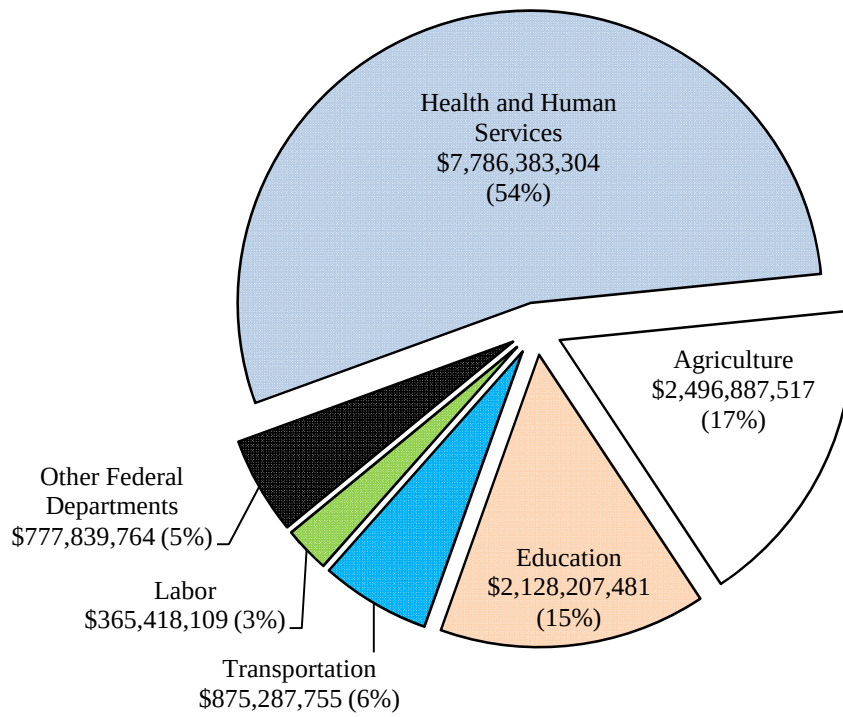
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

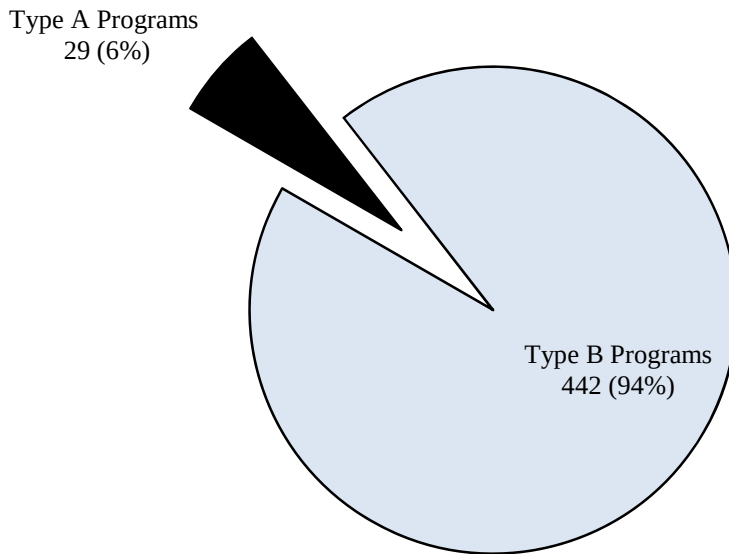
Total Federal Expenditures - Ten-Year Summary



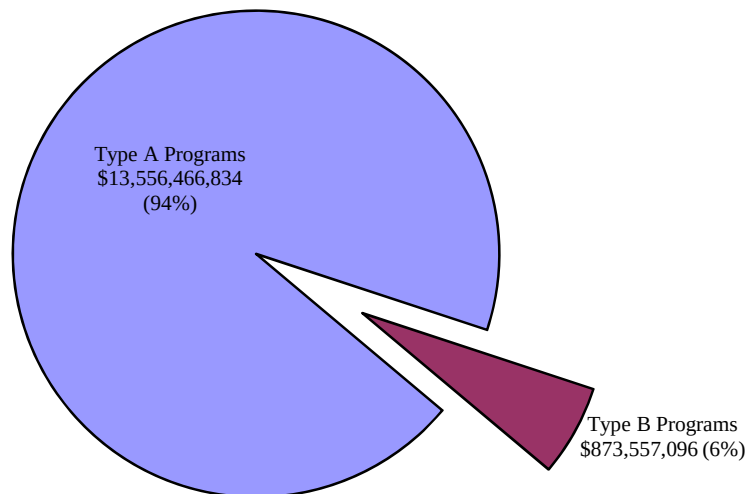
Expenditures by Awarding Agency July 1, 2015, through June 30, 2016



Number of Type A and Type B Programs



Type A and Type B Program Expenditures



Type A program levels for non-federal entities are established in the Uniform Guidance. For the fiscal year ended June 30, 2016, the Type A program threshold for the State of Tennessee was \$30 million. Those federal programs with expenditures below \$30 million 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 the Uniform Guidance



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

**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, 2016, 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 21, 2016. 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. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two deficiencies in internal control, described in the Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, that we consider to be significant deficiencies.

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 Responses to Findings

The State of Tennessee's responses to the 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 the financial statements and, accordingly, we express no opinion on them.

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, CPA

Director

December 21, 2016



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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 the Uniform Guidance

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 84.002 Adult Education-Basic Grants to States, CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States, 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)
2016-020	10.558	Child and Adult Care Food Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Subrecipient Monitoring
2016-021	10.558	Child and Adult Care Food Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Subrecipient Monitoring
2016-023	10.558	Child and Adult Care Food Program	Eligibility
2016-027	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2016-064	84.002	Adult Education-Basic Grants to States	Subrecipient Monitoring
2016-065	84.002	Adult Education-Basic Grants to States	Activities Allowed or Unallowed; Allowable Costs/Cost Principles
2016-037	84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	Matching, Level of Effort, Earmarking
2016-038	84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	Period of Performance
2016-039	84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States	Reporting
2016-017	93.563	Child Support Enforcement	Allowable Costs/Cost Principles
2016-045	-	Child Care and Development Fund Cluster	Reporting
2016-046	-	Child Care and Development Fund Cluster	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 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States, 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, 2016.

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, 2016.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-003, 2016-004, 2016-006 through 2016-008, 2016-010, 2016-011, 2016-014 through 2016-018, 2016-022, 2016-024 through 2016-036, 2016-040, 2016-041, 2016-043 through 2016-045, 2016-047 through 2016-050, 2016-052, 2016-054 through 2016-060, 2016-062, and 2016-065 through 2016-068. 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 the Uniform Guidance, 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 2016-008, 2016-010, 2016-011, 2016-017 through 2016-021, 2016-023, 2016-027, 2016-037 through 2016-039, 2016-045, 2016-046, 2016-053, 2016-056, 2016-064, and 2016-065 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 2016-003 through 2016-007, 2016-009, 2016-012 through 2016-017, 2016-019, 2016-022, 2016-024 through 2016-026, 2016-028 through 2016-036, 2016-040 through 2016-042, 2016-044, 2016-047 through 2016-052, 2016-054, 2016-057 through 2016-059, 2016-061 through 2016-063, and 2016-068 to be significant deficiencies.

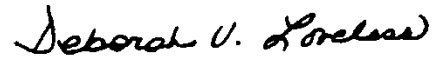
The State of Tennessee's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned costs. The State of Tennessee's responses were not subjected to the auditing procedures applied in the audit of compliance 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, 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 21, 2016, 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 the Uniform Guidance and is not a required part of the basic 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.

A handwritten signature in black ink, reading "Deborah V. Loveless". The signature is written in a cursive style with a large, stylized 'D' and 'L'.

Deborah V. Loveless, CPA
Director
March 22, 2017

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, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

- We issued unmodified opinions on the basic financial statements.
- We identified no material weaknesses in internal control over financial reporting.
- We identified 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 qualified opinions for CFDA 10.558 Child and Adult Care Food Program, CFDA 84.002 Adult Education-Basic Grants to States, CFDA 84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States, 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 2 CFR 200.516(a).
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in 2 CFR 200.518(b), was \$30,000,000.
- The State of Tennessee does not qualify as a low-risk auditee under the provisions of 2 CFR 200.520.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

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

CFDA Number	Name of Major Federal Program or Cluster
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance
84.002	Adult Education - Basic Grants to States
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
84.377	School Improvement Grants
93.069	Public Health Emergency Preparedness
93.268	Immunization Cooperative Agreements
93.563	Child Support Enforcement
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)
-	Supplemental Nutrition Assistance Program (SNAP) Cluster
-	Child Nutrition Cluster
-	Section 8 Project-Based Cluster
-	Clean Water State Revolving Fund Cluster
-	Temporary Assistance for Needy Families (TANF) Cluster
-	Child Care and Development Fund (CCDF) Cluster
-	Medicaid Cluster
-	Disability Insurance/Supplemental Security Income (SSI) Cluster

**State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section II – Financial Statement Findings

Finding Number	2016-001
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Federal Award	05-1505TN5ADM, 05-1605TN5ADM, 05-1505TN5MAP,
Identification Number	05-1605TN5MAP
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Division of Health Care Finance and Administration overstated amounts provided to subrecipients by \$273,520,990 on the Schedule of Expenditures of Federal Awards

Condition

The Division of Health Care Finance and Administration's (HCFA's) internal controls over financial reporting failed to detect a material misstatement of \$273,520,990 in the 2016 Schedule of Expenditures of Federal Awards (SEFA). Management did not specifically address the risk that financial schedules would be materially misstated on their annual risk assessment.

Criteria

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 303(a) requires the state to "establish and maintain effective internal control over the Federal award that provides reasonable assurance that the [state] is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." 2 CFR 200.510(b)(4) requires states to "include the total amount provided to subrecipients from each Federal program" on the SEFA. Also, 2 CFR 200.93 defines a subrecipient as "a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program."

Part 3 of the Office of Management and Budget 2016 *Compliance Supplement* states, "Transfers of Federal awards to another component of the same auditee under [2 CFR 200(f)], do not constitute a subrecipient or contractor relationship." Also, the Tennessee Department of Finance and Administration's instructions for agencies completing the SEFA state, "Thorough analysis of

the transactions in [a specific accounting system query] will be required to identify amounts provided to subrecipients.” The same instructions also state, “Since other state agencies . . . are considered part of the overall reporting entity for [SEFA] reporting purposes, amounts provided to other state agencies should not be reported separately as amounts passed through to outside subrecipients.” The SEFA instructions define state agencies as including universities and component units.

Cause

HCFA management did not use due care in gaining an understanding of the subrecipient expenditure reporting requirements prior to preparing the SEFA. An existing data field in the state’s accounting system was inappropriately relied upon to identify subrecipient expenditures without analyzing the effects of reliance.

Effect

HCFA overstated total Medicaid subrecipient expenditures by \$273,520,990 on the SEFA. Non-subrecipient expenditures were understated by the same amount. Of this amount, \$255,132,103 was paid to the federal Department of Health and Human Services (which is not a subrecipient) primarily for Medicare premiums, deductibles, and coinsurance for individuals eligible for both TennCare and Medicare. The remaining amount was paid to two state universities and another component unit of the state. Actual Medicaid subrecipient expenditures were \$18,019,995. HCFA’s total expenditures (reported as \$7,013,957,798 from all federal awards) were not affected. The SEFA included in the Tennessee *Single Audit Report* was corrected.

Recommendation

HCFA’s fiscal staff should use due care when preparing the mandatory financial schedules. This should include additional review procedures to address the increased risk of misstatement when reporting requirements change. Also, management should update the division’s annual risk assessment to reflect any new controls added to mitigate newly documented risks, and management should continually monitor the effectiveness of controls.

Management’s Comment

We concur with the finding. The error occurred because of a change in federal financial reporting requirements that led to changes in how funds were accounted for in the State’s accounting system; these changes are understood and the error will not recur. The SEFA schedule error was corrected immediately once it was brought to the attention of HCFA fiscal staff. HCFA fiscal staff will update the annual risk assessment to include new controls to help mitigate such risks in the future.

Finding Number	2016-002
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of the Treasury
Federal Award	
Identification Number	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Internal controls were not sufficient for the Tennessee Consolidated Retirement System information system

Tennessee Consolidated Retirement System did not design and monitor internal controls in specific areas. The inconsistent implementation of internal controls increases the risk of fraud or error.

The details of these findings are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the Tennessee Consolidated Retirement System with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Management's Comment

We concur. These important issues have received immediate attention from the Treasurer, Treasury Department and TCRS staff. Effective November 23, 2016, interim processes were implemented to address the finding.

In December 2016, permanent process changes will be incorporated into TCRS operations. Treasury Internal Audit will conduct follow up audits to confirm the changes implemented by management.

**State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section III – Federal Award Findings and Questioned Costs

Finding Number	2016-003
CFDA Number	10.553, 10.555, 10.556, 84.048, 84.287, and 84.377
Program Name	Child Nutrition Cluster Career and Technical Education – Basic Grants to States Twenty-First Century Community Learning Centers School Improvement Grants
Federal Agency	Department of Education Department of Agriculture
State Agency	Department of Education
Federal Award Identification Number	2014(IN&CN)109945, 2015IN109945, 201616N109945, V048A120042, V048A130042, V048A140042, V048A150042, S287C110043, SC287120043, S287C130043, S287C140043, S287C150043, S377A100043, S377A110043, S377A120043, S377A130043, S377A140043, S377A150043
Federal Award Year	2011 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Education did not maintain documentation to demonstrate it verified that certain subrecipients received single audits

Condition

Pursuant to the Office of Management of Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations,” Subpart D, Section 400, if a subrecipient spends \$500,000 or more in federal funds during its fiscal year, the subrecipient is required to have a single audit conducted.¹ Furthermore, as the pass-through entity, the Tennessee Department of Education is required by federal regulations to verify that all subrecipients that spend \$500,000 or more obtained a single audit. If a subrecipient received an audit finding, the department must issue a management decision within six months of the audit report’s release, indicate if the department sustained the finding, and describe any corrective action the subrecipient must take.

¹ Beginning with fiscal year 2016, subrecipients must comply with Title 2, *Code of Federal Regulations*, Part 200, Section 501, which states that if a subrecipient spends \$750,000 or more in federal funds during its fiscal year, the subrecipient is required to have a single audit conducted.

Based on testwork performed, we determined that the department did not maintain documentation to demonstrate it verified that 130 of 272 subrecipients (48%) obtained single audits for fiscal year 2015. These 130 subrecipients represented charter schools, religious organizations, boys and girls clubs, and other community-based organizations; they were not local educational agencies (LEA). LEAs are automatically included in single audits of local governments; these audits are carried out by the Office of the Comptroller of the Treasury, Division of Local Government Audit. Non-LEA subrecipient management is responsible for obtaining a single audit when the subrecipient meets federally established audit thresholds; the department is then responsible for verifying the subrecipient obtained the required audits and taking action in cases of noncompliance. As a result, the department's verification that these subrecipients obtained single audits is vital to ensuring compliance; however, the department did not have a process to ensure non-LEA subrecipients met the audit requirements. Based on testwork performed, we determined that 10 of the 130 subrecipients received over \$500,000 in federal funds from the Department of Education, and we verified that these subrecipients obtained a single audit. The remaining subrecipients received less than \$500,000 from the department. Because of the state's limitations with identifying and tracking its grant recipients and subrecipients and their expenditures, however, neither the department nor we could determine if these subrecipients received \$500,000 or more in total federal funding from all state agencies, which would require them to obtain a single audit.²

Management also did not identify the risk of noncompliance with audit requirements in their annual risk assessment.

Criteria

OMB Circular A-133, Subpart D, Section 400(d)(4) states,

A pass-through entity shall perform the following for the Federal awards it makes.
... [e]nsure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for this fiscal year.

Cause

When we asked internal audit staff for their subrecipient audit documentation, they provided us with a spreadsheet documenting the results of subrecipient single audits, which only listed LEAs. Internal audit staff stated that the former Internal Audit Director, who retired in May 2016, was the sole person responsible for tracking subrecipient single audits. Internal audit staff searched his electronic and hardcopy files but could not locate any non-LEA subrecipient audit documentation.

² The Central Procurement Office (CPO) is required by state statute to establish a central grants management process to identify federal and state grant recipients and subrecipients. We reported in the December 2015 performance audit of the Department of General Services that CPO was currently working to develop this process. See page 39 on <http://www.comptroller.tn.gov/repository/SA/pa16127.pdf>.

Effect

When management does not verify that applicable subrecipients obtain single audits, it increases the risk that subrecipients may, while they are in the process of administering federal grants,

- use federal grant funds for unauthorized purposes; and
- fail to comply with federal statutes and regulations, as well as the federal awards' terms and conditions.

Recommendation

The Commissioner should work with the Internal Audit Director to implement adequate procedures to ensure the department verifies that all subrecipient audits are completed as required and corrective action is achieved.

Management's Comment

We concur. A tracking spreadsheet was developed by the Director of Internal Audit in November 2016 and is now being utilized to ensure that all subrecipients have received a single audit. In addition, the spreadsheet is being used to track any findings and the management decision letter which is required to be sent to the subrecipient within 6 months. This corrective action should ensure that we are in compliance with the Office of Management of Budget (OMB) Circular A – 133, "Audits of States, Local Governments, and Non-Profit Organizations," Subpart D, Section 400.

Finding Number	2016-004
CFDA Number	10.553, 10.555, and 10.556
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Education
Federal Award	2014(IN&CN)109945, 2015IN109945, 201616N109945
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Management did not have internal controls in place to ensure federal reports for the Child Nutrition Cluster were accurate, and did not report estimated unliquidated obligations for the Special Milk Program on the federal FNS-777, *Financial Status Report*

Background

As the department responsible for administering the National School Lunch, School Breakfast, and Special Milk programs, all of which fall under the Child Nutrition Cluster, the Department of Education is required to submit the following financial and special reports to the U.S. Department of Agriculture, Food and Nutrition Service (FNS):

- The FNS-13, *Annual Report of State Revenue Matching*, identifies the state revenues counted towards meeting the state's revenue matching requirement.
- The FNS-777, a quarterly *Financial Status Report*, captures the department's cumulative expenditures (called net outlays) and unliquidated obligations of federal funds of the programs that compose the Child Nutrition Cluster. FNS uses this report's data to monitor the department's program costs and cash draws.
- The FNS-10, *Report of School Program Operations*, captures the number of meals served at schools under the National School Lunch and School Breakfast programs, and half-pints of milk served under the Special Milk Program.

Condition and Criteria

Lack of Internal Controls For All Federal Reporting in the Child Nutrition Cluster

Management did not design or implement internal controls to ensure accurate federal reporting for the Child Nutrition Cluster by segregating duties or implementing appropriate compensating controls where duties could not be segregated to provide for an independent review of the federal reports prior to submission. Specifically, the Director of Local Disbursements was the sole person responsible for preparing and submitting these reports. Furthermore, management did not

assign specific personnel with the responsibility to independently review these reports prior to submission to the federal grantor to ensure the reports were accurate and complete.

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03, states, "Management designs appropriate types of control activities for the entity's internal control system." The principle goes on to state that "management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud."

"*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*" Title 2, Code of Federal Regulations, Section 200.62, states, "Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

FNS-777 Reporting Errors and Omission

We tested the four quarterly FNS-777 reports submitted to FNS from July 1, 2015, through June 30, 2016, to determine if management accurately and completely reported information to FNS. Based on testwork performed, we determined that the Director of Local Disbursements did not accurately report estimated unliquidated obligations on the FNS-777 reports tested. Specifically, we found the following errors:

- The Special Milk Program's estimated unliquidated obligations, totaling \$8,381, were not reported on any of the four FNS-777 reports tested.
- On the March 2016 FNS-777 report, management understated estimated unliquidated obligations for the National School Lunch Program by \$683,589.

Additionally, we found one minor error on the September 2015 FNS-777 report.

The FNS-777 report contains a certification statement that states, by submitting the report to FNS, "I (the preparer) certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents."

Risk Assessment

In the department's 2015 annual risk assessment, management identified the risk that federal reports will not be submitted accurately and timely to the federal awarding agency. According to management's control activity to mitigate this risk, managers for the department's federal programs have extensive experience in their respective federal programs and are very familiar with the required federal regulations. Based on our work, however, management's control was not effective.

Cause

Management was not aware that they did not have an internal control over the reporting process. Additionally, the Director of Local Disbursements was unaware of the reporting requirements for estimated unliquidated obligations for the Special Milk Program.

Effect

Without a proper system of internal controls over reporting, the risk that the department will submit inaccurate or incomplete reports inhibits the federal grantor from properly monitoring its programs and the department's cash draws.

Recommendation

The Commissioner should work with the Office of Local Finance and the Director of Child Nutrition to implement effective internal controls to ensure accurate and complete reporting for the Child Nutrition programs.

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

Management's Comment

We concur. With regards to internal controls, the report generation and submission functions have been realigned to separate resources. Also, an additional level of verification and authorization has been added both systematically and procedurally within the reporting process for FNS-13, FNS-777, and FNS-10 to ensure accuracy. With regards to Special Milk Program reporting, the prior internal policies did not require the reporting of estimated unliquidated obligations for the Special Milk Program. The reporting policies have been updated to include this data point.

Management will evaluate the effectiveness of these new controls and ensure these controls effectively mitigate the identified risks. The annual risk assessment will be properly updated to reflect the implementation of these new controls and the mitigation of the identified risks.

Finding Number	2016-005
CFDA Number	10.555
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Education
Federal Award	2014(IN&CN)109945, 2015IN109945, 201616N109945
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Matching, Level of Effort, Earmarking
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Management did not have internal controls in place to ensure compliance with federal matching requirements for the National School Lunch Program

Background

Each school year, Tennessee is required to contribute state-appropriated revenues to school food authorities (SFAs). The U.S. Department of Agriculture's Food and Nutrition Service provides the Tennessee Department of Education with an annual report containing the required state match amount. The department's Office of Local Finance allocates the amount to SFAs on a per-meal basis and uses the allocated amounts to enter lump-sum payments to the SFAs in ePlan, the department's grants management system. During our audit period, the department was required to match \$4,660,032, which it allocated to 146 SFAs.

Condition and Cause

We tested the complete population of 146 SFA payment calculations to determine compliance with state match requirements. We did not find any instances of noncompliance; however, we found that management did not have appropriately designed internal controls to ensure compliance.

Based on our evaluation of management's process to allocate the state match to SFAs, we determined that management did not properly segregate duties in the allocation process to achieve reasonable assurance that the department complied with National School Lunch Program's matching requirements. Specifically, the Director of Local Disbursements was responsible for calculating the state match allocation and entering the lump-sum payments to SFAs in ePlan. Furthermore, management did not assign personnel the responsibility to independently review the allocation amounts prior to payment to ensure they were correctly calculated.

Management did not identify this control weakness and did not realize an issue with the matching process existed.

Criteria

The Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03, states, "Management designs appropriate types of control activities for the entity's internal control system." The principle goes on to state that "management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud."

"Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations*, section 200.62, states, "Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Effect

When management does not implement controls to ensure state match payments to SFAs are correctly allocated, paid, and in compliance with federal requirements it increases the risk that the SFAs may not receive the appropriate share of the state match.

Recommendation

The Commissioner should work with the Office of Local Finance and the Director of Child Nutrition to implement appropriate internal controls to ensure compliance with matching requirements, including accurate payments to subrecipients.

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

Management's Comment

We concur. The report calculation and submission functions have been realigned to separate resources. Also, an additional level of verification and authorization has been added both

systematically and procedurally within the calculation and reporting process for SFA payment calculations to ensure compliance and accuracy.

Management will evaluate the effectiveness of these new controls and ensure these controls effectively mitigate the identified risks. The annual risk assessment will be properly updated to reflect the implementation of these new controls and the mitigation of the identified risks.

Finding Number	2016-006
CFDA Number	84.048
Program Name	Career and Technical Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award	V048A120042, V048A130042, V048A140042, V048A150042
Identification Number	
Federal Award Year	2012 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Management did not establish a key internal control to ensure Career and Technical Education program staff obtained local education agencies’ corrective action plans and collected prompt reimbursements of program funds

Background

The Career and Technical Education (CTE) program provides grants to states and outlying areas to develop the career, technical, vocational, and academic skills of secondary students and postsecondary students. The state, in turn, awards grants to local educational agencies (LEAs) to ensure that students develop these skills.

To ensure that LEAs administer the CTE program in accordance with federal requirements, the department is required to conduct annual risk-based monitoring visits to an adequate number of LEAs to ensure that the LEAs

- achieved their performance goals;
- used federal funds for authorized purposes; and
- complied with laws, regulations, and grant provisions.

Based on our review of the department’s monitoring documentation, the department’s CTE program staff conducted onsite monitoring visits at 43 of the 123 LEAs during fiscal year 2016. Of these 43, program staff found deficiencies at 5 LEAs, which were then required to submit corrective action plans to the department. To assist them in developing their plans, the LEAs work directly with the department’s Center of Regional Excellence (CORE) consultants, who are charged with providing technical support to school districts within the department’s eight regions.

Condition

While gaining an understanding of management’s monitoring process, we determined that management did not establish a key internal control to ensure LEAs submitted corrective action

plans timely and reimbursed the department when they inappropriately used CTE program funds. Based on our review of five corrective action plans for fiscal year 2016, the CORE consultants did not follow up with one of five LEAs (20%) to ensure it submitted a corrective action plan. The department's monitoring report identified that the LEA used CTE funds to pay for unallowable travel expenditures and required it to reimburse these funds to the department. The LEA's corrective action plan was due by September 9, 2016; on December 22, 2016, the department provided to us the LEA's plan, dated December 17, 2016. The department also did not follow up to ensure the LEA reimbursed the department timely, as described below.

In addition, we identified 7 LEAs that were required to reimburse the department a total of \$7,978 in unallowable costs. Based on our initial inquiry with program management on October 25, 2016, the department had not followed up to ensure the LEAs reimbursed the department; however, after our discussions with program management, the department collected all of the LEAs' reimbursements as of December 9, 2016.

In the department's 2015 annual risk assessment, management identified as a risk the department's failure to ensure that corrective action is taken on deficiencies noted during monitoring. According to management's internal control to mitigate this risk, management has procedures in place to follow up with local education agencies that are required to file corrective action reports and ensure the appropriate action was taken; however, management did not perform the follow up, thus procedures were not sufficient to mitigate the risk.

Criteria

According to Title 2, *Code of Federal Regulations*, Part 200, Section 331, the pass-through entity's monitoring of subrecipients 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 pass-through entity detected through audits, on-site reviews, and other means.

"Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations (CFR)*, section 200.62, states, "Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and

- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Cause

According to the Executive Director of Divisional Support and Accountability in the Division of College, Career, and Technical Education, this was the first time an LEA did not submit its corrective action plan. He also stated that management did not have a formal process in place to inform program staff if a corrective action plan submission deadline had passed or if the department did not receive a reimbursement.

Effect

When the department does not establish a process to ensure subrecipients take corrective action or recover disallowed costs, neither the department nor its local education agencies are in compliance with federal program requirements. Without requiring corrective action and reimbursement of disallowed expenditures through the monitoring process, the department increases the risk of local education agencies expending federal funds for activities and costs that are unallowed under federal requirements.

“Collections of amounts due,” 2 CFR 200.345(a), states,

Any funds paid to the non-Federal entity in excess of the amount to which the non-Federal entity is finally determined to be entitled under the terms of the Federal award constitute a debt to the Federal Government. If not paid within 90 calendar days after demand, the Federal awarding agency may reduce the debt by:

- (1) Making an administrative offset against other requests for reimbursements;
- (2) Withholding advance payments otherwise due to the non-Federal entity; or
- (3) Other action permitted by Federal statute.

Recommendation

The department must ensure its monitoring process includes procedures to adequately follow up with the local education agencies to obtain their corrective action plans and/or reimbursements.

Additionally, management should identify control activities to mitigate this risk and update the department’s annual risk assessment to reflect the new controls management implements.

Management’s Comment

We concur with the finding and recommendation outlined above. The division of College, Career and Technical Education (CCCT) is currently writing a new Perkins Risk Based Monitoring (RBM) guide for the Perkins monitoring team that has a section dedicated to corrective action on a sub recipient. This section will outline the responsibilities of the

monitoring team to conduct appropriate follow up, technical assistance, and if necessary, warnings, to sub recipients to ensure proper controls.

In addition, sub recipients will be informed that if corrective action plans and reimbursements are not provided within the timeframe listed on the monitoring report letter, then this can place the sub recipient with possible pre-conditions to the next fiscal year's federal Perkins funds and also increase their risk of being monitored again.

This RBM guide will be completed by April 30 and will be reviewed annually. In addition, sub recipients that have to complete a corrective action plan, or reimburse federal funds, will be notified of the elevated risk or pre condition starting with all monitoring letters issued after February 15, 2017.

In addition, the effectiveness of these new controls will be evaluated to ensure the controls effectively mitigate the identified risks. The annual risk assessment will be properly updated to reflect the implementation of these new controls and the mitigation of the identified risks.

Finding Number 2016-007
CFDA Number 84.048 and 84.287
Program Name Career and Technical Education
 Twenty-First Century Community Learning Centers
Federal Agency Department of Education
State Agency Department of Education
Federal Award Identification Number V048A150042, S287C130043, S287C150043
Federal Award Year 2014 through 2018
Finding Type Significant Deficiency and Noncompliance
Compliance Requirement Period of Performance
Repeat Finding N/A
Pass-Through Entity N/A
Questioned Costs

	Federal Award	
CFDA	Identification Number	Amount
84.048	V048A150042	\$3,745
84.287	S287C130043	\$2,464
84.287	S287C150043	\$625

Program expenditures were obligated outside the period of performance

Background

Career and Technical Education

The Career and Technical Education (CTE) program is a federal program that develops career, technical, vocational, and academic skills of secondary students and postsecondary students. Like most federal programs, federal funding for the CTE program is only available to the Tennessee Department of Education (the department) and its subrecipients for a limited time. Each year, the department receives a grant award notification from the U.S. Department of Education outlining the CTE award amount and the period of performance (federal funding period). During fiscal year ended June 30, 2016, the department received a \$23,122,059 grant, award number V048A150042, which had a period of performance beginning July 1, 2015.

Twenty-First Century Community Learning Centers

Twenty-First Century Community Learning Centers (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. The centers (subrecipients)—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.³ At the same time, centers help working parents by providing a safe environment for students when school is not in session. During fiscal year ended June 30, 2016, the department received a \$21,760,677 grant award, number S287C150043, which had a period of performance beginning July 1, 2015. Additionally, the period of performance for the \$21,030,749 grant award S287C130043, received in fiscal year ended June 30, 2014, ended September 30, 2015, during our audit period.

Condition

CTE

We selected a nonstatistical random sample of 60 expenditure transactions, which totaled \$238,987, from a population of 221 expenditures, totaling \$1,076,802, that were charged to the 2015 CTE grant during the beginning of the period of performance from July 1, 2015, through September 30, 2015, to determine if the expenditures were obligated during the grant's period of performance. For 6 of 60 expenditures tested (10%), we found that these expenditures were reimbursements to CTE subrecipients for expenditures that were obligated before July 1, 2015; therefore, these expenditures should have been charged to the 2014 grant instead of the 2015 grant. These payments totaled \$3,745, which represents federal questioned costs.

21st CCLC

2015 Grant – Period of Performance Beginning July 1, 2015

We selected a nonstatistical random sample of 60 adjustment transactions (i.e., manual journal entries), which totaled \$271,791, from a population of 224 adjustments, totaling \$2,252,128, that were charged to 21st CCLC grants from July 1, 2015, through June 30, 2016, to determine if the adjustments related to expenditures that originally occurred during the period of performance. For 1 of 60 adjustments tested (2%), we found that the department made an adjustment, totaling \$2,464, for an expenditure transaction originally incurred on June 15, 2015, by moving the expenditure from the 2014 grant to the 2015 grant. Because the expenditure occurred before the grant's period of performance began, the department should not have moved it to the 2015 grant.

2013 Grant – Period of Performance Ending September 30, 2015

We tested the population of 26 expenditure transactions, which totaled \$4,429,005, that were charged to the 2013 21st CCLC grant after it closed on September 30, 2015, to determine if the expenditures were obligated during the grant's period of performance. For 1 of 26 expenditure transactions tested (4%), we found that the expenditure, totaling \$625, was an invoice for services performed on various dates in October 2015; therefore, the expenditure was obligated after the period of performance ended.

³ 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. Community learning centers must also offer literacy and related educational development to these students' families.

Additionally, based on discussions with management, we found that the department did not conduct a review of documentation of subrecipient expenditures charged to federal grants during the beginning of the period of performance to ensure the expenditures were not obligated prior to the start of the period of performance. In fact, the department had no system of internal controls to prevent the department from reimbursing subrecipients for funds obligated outside the period of performance.

Furthermore, based on discussions with management, we found that the expenditure that was charged after the period of performance occurred when the accounting team was short-staffed, and management was in the process of implementing new procedures to identify such transactions. Management implemented the new procedures in February 2016; however, the department did not apply the new procedures to all relevant periods to ensure compliance with period of performance requirements.

Risk Assessment

The 2015 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 accounting systems as control activities; however, management's reliance on training and accounting systems was not effective enough to prevent the payment of expenditures obligated outside the period of performance.

Criteria

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.

“Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, *Code of Federal Regulations*, section 200.62, states, “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award

- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Cause

CTE

According to the Executive Director of Divisional Support and Accountability, employees of the subrecipients submitted expenditure reimbursement requests in July and August 2015 (during the period of performance) for travel and staff development that occurred prior to July 2015 (prior to the start of the period of performance). While the subrecipients' fiscal staff are trained to ensure expenses are charged to the correct federal award, they incorrectly included these expenditures in the subrecipients' reimbursement requests for July and August 2015.

21st CCLC

Based on discussion with the department's Controller, both errors resulted from an oversight during the respective review processes.

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 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.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;

- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

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. Additionally, 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 the time frames specified in the federal award.

Management's Comment

Program Response: Division of College, Career and Technical Education (CCTE)

We concur with the finding and recommendation outlined above for the division of CCTE. To fix the current issues, program staff for the division of CCTE will require the six affected LEAs with period of performance issues to reimburse the \$3,375 total in Perkins funds. Letters will be sent out by February 28, 2017 to the LEA's Fiscal and CTE Directors instructing reimbursements to be sent to the division of CCTE by March 31, 2017.

Since all the questioned costs were a result of staff travel / professional development, the division of CCTE program staff will work with the Office of Local Finance to inform both LEA Fiscal and CTE Directors that travel obligations occur when the travel takes place, not when the reimbursements are requested.

In addition, the effectiveness of these new controls will be evaluated to ensure the controls effectively mitigate the identified risks. The annual risk assessment will be properly updated to reflect the implementation of these new controls and the mitigation of the identified risks.

Program Response: 21st Century Community Learning Centers (21st CCLC)

We concur with the finding. The errors have been corrected. The \$2,464.20 was charged to the 2014 grant on 12/14/2016. The \$625 was charged to the 2014 grant and was returned to the US Department of Education via check on 1/26/2017. To date, the extended learning staff have reviewed all payments made between September and December to ensure payments have been charged to the correct grant. The extended learning staff will continue to work with the accounting department in reviewing vendor reimbursements to insure that payments are made within the period of availability. These new controls will be evaluated to ensure the controls mitigate the identified risks. In addition, the annual risk assessment will be updated to reflect the effectiveness of these new controls and the mitigation of the identified risks.

Accounting

We concur. The accounting team has added additional staff to allow for additional reviews of the general ledger. We now run the AP80 query (list of invoices entered/paid) monthly and review account coding and prepare journal entries for any corrections needed. This process was implemented around February 2016 with the hiring of an accountant responsible for reviewing this report.

Beginning July 1, 2017 the Office of Local Finance/Local Disbursements will review all reimbursement requests submitted for the Carl Perkins Basic Grant to determine if travel reimbursement is being requested. If it is determined that travel is part of the reimbursement request, the Director of Local Disbursements will contact the Executive Director of Divisional Support and Accountability and request that the regional CCTE consultants obtain documentation to determine the appropriate year to which the expenditures should be charged. Reimbursement requests will not be approved until documentation is received and the appropriate grant year is charged.

The Office of Local Finance will continue to include training on travel reimbursements against federal grants to ensure that the appropriate grant year is charged. This training occurs annually at the spring fiscal workshops held across the state.

These new controls will be evaluated to ensure their effectiveness in mitigating the identified risks. The annual risk assessment will be updated to reflect these changes.

Finding Number	2016-008
CFDA Number	84.287
Program Name	Twenty-First Century Community Learning Centers
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award	
Identification Number	S287C130043, S287C140043, S287C150043
Federal Award Year	2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed/Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-008
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
84.287	S287C130043	\$79,789
84.287	S287C140043	13,659
84.287	S287C150043	58

As a result of inadequate internal controls, the department reimbursed subrecipients for unallowable and unsupported costs

Background

Twenty-First Century Community Learning Centers (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. The centers (subrecipients) – 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.⁴ At the same time, centers help working parents by providing a safe environment for students when school is not in session.

To administer the 21st CCLC program statewide, the department awards program funds to subrecipients through a competitive process. 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.

In fiscal year 2016, the department awarded 21st CCLC grants to 96 subrecipients and paid these entities with over \$28 million of federal funds.

⁴ 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. Community learning centers must also offer literacy and related educational development to these students' families.

Corrective Action Implemented After 2015 Single Audit

In the two prior audits, we noted that department management reimbursed subrecipients for costs that did not comply with federal program requirements.

In December 2015, management began implementing corrective action to address the prior audit finding by conducting detailed reviews of reimbursement requests during on-site subrecipient monitoring visits to verify that subrecipients maintained adequate supporting documentation. In addition, management began randomly selecting four reimbursement requests submitted each month for a detailed desktop review of supporting documentation to verify that expenditures were allowable and adequately supported.

While we found questioned costs in the current audit (described on the following pages), approximately 99% of these questioned costs occurred prior to January 2016—before the department fully implemented corrective action.

Condition, Criteria, and Cause

Internal Control Deficiency

The department lacked adequate internal controls to ensure that it reimbursed 21st CCLC program subrecipients for expenditures that met the program's objectives and complied with federal requirements. During our audit period, the 21st CCLC program staff did not perform a review of supporting documentation for expenditures included in reimbursements paid. Of the \$25,207,810 awarded to 21st CCLC subrecipients during fiscal year 2016, \$14,209,322 was awarded to subrecipients who did not undergo any program monitoring during the fiscal year. For those subrecipients who were selected for program monitoring, program staff did not review supporting documentation for reimbursements the department had paid. We determined that this internal control deficiency contributed to the noncompliance described below.

According to the Director of Extended Learning Programs, she believes the internal deficiency occurred because 21st CCLC staff were not part of the reimbursement request approval workflow process. Prior to September 2016, reimbursement requests would go directly to the accounting department for payment; however, since September 2016, she stated that 21st CCLC staff review supporting documentation of expenditures prior to payment.

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."

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Title 2, *Code of Federal Regulations*, Section 200.62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Noncompliance with Allowable Cost Principles

From a population of 1,227 expenditure transactions, totaling \$28,143,231, we tested a sample of 66 expenditures,⁵ totaling \$1,229,750. Each expenditure transaction is a reimbursement made to a subrecipient. We conducted a detailed review of all 66 expenditures to determine if the subrecipients appropriately charged costs to the program. Based on the testwork performed, we found that for 16 of 66 expenditures (24%), the department reimbursed the subrecipients for expenditures that were unsupported, unallowable, or improperly allocated under federal program requirements. See Table 1.

Table 1
Summary of Expenditure Issues and Questioned Costs

Expenditure Issues	Questioned Costs
Unsupported Expenditures	\$81,382
Unallowable Food/Snack Expenditures	8,951
Unallowable Non-Academic Trip Expenditures	201
Unallowable Non-Program Related Expenditures	536
Unallowable Sales Tax Expenditures	126
Improperly Allocated Costs	2,310
Total	\$93,506

⁵ We tested a nonstatistical, random sample of 60 expenditures plus 6 additional expenditures.

Unsupported Expenditures

Subrecipients could not provide supporting documentation for \$81,382 of expenditures we tested; therefore, we could not determine whether these expenditures met federal program requirements. These deficiencies occurred before the department took corrective action.

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 403(g), “costs must . . . be adequately documented.”

Unallowable Program Activities

We also found the following:

- Nine subrecipients used grant funds to purchase food for staff meetings and unhealthy foods to feed students, such as ice cream and cookies. These unallowable food expenditures totaled \$8,950. Of this amount, \$8,627 occurred before and \$323 occurred after the department took corrective action.
- One subrecipient used grant funds to take students on a non-academic field trip to a movie theater, totaling \$201. This expenditure occurred before the department implemented corrective action.
- One subrecipient used grant funds to purchase t-shirts, totaling \$536. This expenditure also occurred before the department implemented corrective action.

According to the Department of Education’s *21st CCLC Program Manual*, most foods⁶ (refreshment, snacks, and meals); non-academic field trips; and incentives for students (such as prizes, plaques, and t-shirts) are unallowable.

In addition, we found that the department reimbursed four community-based organizations for sales taxes, totaling \$126, which are unallowable under federal regulations, because these non-profit organizations were either eligible for tax-exempt status or had already secured this status. Of this amount, \$68 occurred before and \$58 occurred after the department took corrective action. According to 2 CFR 200.470(b)(1)(i), for nonprofit organizations, “taxes from which exemptions are available to the non-Federal entity directly or which are available to the non-Federal entity based on an exemption afforded the Federal Government [are not allowable].”

Improperly Allocated Cost

We found that one subrecipient did not properly allocate the cost of a reading program’s software license that both 21st CCLC and non-21st CCLC students used. The subrecipient charged \$3,000 to the 21st CCLC grant; however, it should have only charged a portion of the amount based on the number of students in the 21st CCLC program (\$690). This resulted in

⁶ Based on our discussions with department management during the prior audit, 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.

\$2,310 of unallowable costs. This deficiency occurred before the department implemented corrective action.

According to 2 CFR 200.405(a),

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost: (1) Is incurred specifically for the Federal award. . . .

Known Questioned Costs

Table 2
Programmatic Expenditures Before January 2016 and After Corrective Action in February 2016

	Population	Sample	Questioned Costs	% Questioned Cost
Before Corrective Action	\$11,708,624	\$936,389	\$93,125	>99%
After Corrective Action	\$16,434,606	\$293,361	\$381	<1%
Total	\$28,143,231	\$1,229,750	\$93,506	

Effect

Without adequate procedures to ensure that the department's reimbursements to subrecipients meet the program's objectives and comply with federal requirements, management's risk of noncompliance and misappropriation of federal funds increases.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207, "Specific conditions:"

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner should work with program staff to continue to improve the department's corrective action plan. They should ensure adequate procedures are in place for subrecipients to maintain and submit supporting documentation (e.g., invoices and receipts) 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. Management should also continue to educate subrecipients about federal regulations, including allowable cost criteria. Management should also closely monitor the corrective action to ensure it is operating effectively. If subrecipients do not take appropriate corrective action, management should impose additional conditions upon subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management's Comment

We concur with the finding. Expenditures that were unsupported, unallowable, or improperly allocated under federal program requirements should not have been paid. Sub-recipients will be required to repay the state for each questioned cost. Since January 2016, the department has hired a grants program manager for the 21st CCLC program and implemented more robust onsite and desktop monitoring procedures as part of its corrective action plan. These measures have proven to be effective. More than ninety-nine percent (99%) of the questioned cost deficiencies occurred prior to January 2016. Less than 1% of the deficiencies (\$381) occurred after these corrective actions were implemented. Additional corrective action steps have been implemented

in FY17. In September 2016, the department adjusted its workflow in ePlan so that program staff can review reimbursement requests and supporting documentation prior to payment. The department will continue to monitor these existing corrective actions and to provide additional oversight and support to the 21st CCLC program.

Finding Number	2016-009
CFDA Number	10.553, 10.555, 10.556, 84.048, 84.287, and 84.377
Program Name	Child Nutrition Cluster Career and Technical Education – Basic Grants to States Twenty-First Century Community Learning Centers School Improvement Grants
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	2014(IN&CN)109945, 2015IN109945, 201616N109945, V048A120042, V048A130042, V048A140042, V048A150042, S287C130043, S287C140043, S287C150043, S377A110043, S377A120043, S377A130043, S377A140043, S377A150043
Federal Award Year	2011 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2015-005
Pass-Through Entity	N/A
Questioned Costs	N/A

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

The Department of Education did not design and monitor internal system controls in eight specific areas. For these eight areas, we found internal control deficiencies related to two of the department's systems. For five of the eight areas, we are reporting internal control deficiencies relating to two systems 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. For one system, we identified issues in this system that also occurred in the past two audits. The department claimed to have implemented corrective action on January 29, 2016, and the issues involving this system occurred prior to corrective action. For the second system, we identified issues that we reported in the prior audit. 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 one area involving one system, we found deficiencies that repeated in the last two audits. Although the department claimed to have implemented corrective action on January 29, 2016, we continued to find issues after this date.
- For one area involving two systems, we found deficiencies that we reported in the prior audit. 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 two areas involving one system, we found deficiencies that we reported in the prior audit. For one area, management is continuing to evaluate possible actions to correct the issues and has yet to implement any corrective action. For the second

area, the department claimed to have implemented corrective action on December 30, 2015, but we continued to find issues 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 promptly developing and consistently implementing internal controls in all eight 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 on all issues. Corrective action and corresponding information has been sent under separate cover in accordance with Section 10-7-504(i), *Tennessee Code Annotated* for this finding.

Management will evaluate and continuously monitor all implemented controls to ensure the controls effectively mitigate the identified risks. The annual risk assessment will be updated to reflect the newly implemented controls and the mitigation of the identified risks.

Finding Number 2016-010
CFDA Number 84.377
Program Name School Improvement Grants
Federal Agency Department of Education
State Agency Department of Education
Federal Award S377A110043, S377A120043
Identification Number
Federal Award Year 2011 through 2012
Finding Type Material Weakness and Noncompliance
Compliance Requirement Allowable Costs/Cost Principles
Repeat Finding 2015-010
Pass-Through Entity N/A
Questioned Costs

	Federal Award	
CFDA	Identification Number	Amount
84.377	S377A110043	\$367,165
	S377A120043	\$314,107

As noted in three prior audits, the Department of Education did not have internal controls over School Improvement Grants program expenditures to ensure it reimbursed the Achievement School District for costs that were adequately supported

School Improvement Grants and the Achievement School District

The U.S. Department of Education assists states through the School Improvement Grants program by providing funds to priority schools, which are the lowest-performing 5% of all schools in terms of academic achievement. In fiscal year 2016, the Tennessee Department of Education spent approximately \$15 million in School Improvement Grants program funds to implement school intervention models, including the department's Achievement School District (ASD).⁷

Although it is an organizational unit of the Department of Education, ASD operates as a local educational agency created to take over priority schools within local school districts and oversee these schools for at least five years. ASD began its first year of operation during the 2012-2013 school year.

Status of Prior Year Finding and Management's Corrective Action

In the prior audit, we noted that neither the department nor ASD had internal controls over their expenditure reimbursement processes. In addition, the department reimbursed ASD for costs even though ASD could not provide adequate documentation to support them. In response to this finding, management implemented corrective action in January 2016.

⁷ Created by Section 49-1-614, *Tennessee Code Annotated*.

ASD's Reimbursement Process Prior to Corrective Action (July 2015 through December 2015)

During fiscal year 2016, ASD was responsible for 15 schools that were eligible to receive School Improvement Grants funding:

- 10 schools managed by nonprofit charter management organizations (CMOs) under contract with ASD, and
- 5 schools managed directly by ASD (called Achievement Schools or direct run schools).

ASD contracts with CMOs to operate schools that 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. ASD's former Federal Programs Fiscal Manager reviewed these requests and the supporting documentation and approved the CMOs' reimbursements for payment.

Because the Achievement Schools are run directly by ASD, these schools did not submit reimbursement requests to ASD like the CMOs. Instead, these schools entered their expenditures directly into NetSuite, ASD's accounting system.⁸ The Achievement Schools Chief Financial Officer was responsible for compiling the supporting documentation for the direct run schools' expenditures before submitting reimbursement requests to the department.

ASD's Reimbursement Requests to the Department of Education—Prior to Corrective Action (July 2015 through December 2015)

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

Corrective Action – Beginning January 2016

To address our concerns from the prior audit regarding ASD's administration of federal grants,⁹ the department initiated a review of ASD's internal operations, processes, and controls. Based

⁸ In October 2013, at the request of ASD management, the department granted ASD the autonomy to move its financial operations from the Edison accounting system to its own newly acquired accounting system so that ASD could operate more like a local educational agency.

⁹ During the 2015 Single Audit, we noted concerns relating to the Race to the Top and School Improvement Grants programs.

on their conclusions, department management placed a hold on all of ASD's federal reimbursement requests while they developed new processes and controls. From January through July 2016, department management implemented the following corrective measures:

- The department instituted a new reimbursement process for CMOs and Achievement Schools, which required detailed breakouts of expenses included in the reimbursement requests. The schools must provide time and effort documentation for every payroll request with a Personnel Activity Report, a semiannual certification, or the intent to submit a semiannual certification. The Federal Programs Director and Federal Programs Manager must review and approve reimbursement requests and obtain approval from ASD's Superintendent. Then, the Finance Director and Finance Manager initiate the payment process.
- The department moved ASD's Fiscal and Federal Programs positions from ASD's office in Memphis to its Office of the Chief Financial Officer in Nashville, under the supervision of the department's Director of Fiscal Strategy. As a result of this move, the department hired new employees to fill newly created positions: Federal Programs Manager, Federal Programs Director, Finance Manager, and Finance Director.
- Effective July 1, 2016, department management moved ASD's financial transactions from NetSuite back into Edison.

Management implemented new policies and procedures and were still formally revising them when we completed fieldwork in December 2016.

Results of Current Audit Work

We tested the population of six consolidated reimbursement requests, totaling \$1,982,288, that the department paid to ASD using School Improvement Grants funds and found the following:

- From September through December 2015, five consolidated reimbursement requests, totaling \$1,750,657, were submitted by ASD and paid by the department before management implemented corrective action. Based on testwork performed, we found internal control deficiencies that resulted in instances of noncompliance with allowable cost principles, as described in the *Internal Control Deficiencies* section below.
- One consolidated reimbursement request, totaling \$231,631 was processed using the new reimbursement process. Based on testwork performed, we found no issues relating to this request.

Condition and Criteria

Internal Control Deficiencies – Before Corrective Action

ASD – The former ASD Federal Programs Fiscal Manager did not perform an adequate review of CMO supporting documentation before approving reimbursement requests for payment to the CMOs. He 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. Based on the evidence, the management could not support the reimbursement requests for both the CMOs and the Achievement Schools with adequate documentation to support the funds requested.

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”¹⁰ federal funds from the U.S. Department of Education. We found that management did not obtain sufficient information to support the consolidated reimbursement requests and upload the documentation in ePlan as evidence that department staff ensured ASD complied with program requirements.

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.”

“*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*,” Title 2, *Code of Federal Regulations*, Section 200.62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and

¹⁰ To obtain federal dollars to administer federal programs like the School Improvement Grants program, each day, the department “draws down” funds electronically from the U.S. 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.

- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Noncompliance With Allowable Cost Principles – Before Corrective Action

For five of six consolidated reimbursements tested (83%), 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 documentation for CMO and ASD employees' work activities. Additionally, for two of six consolidated reimbursements tested (33%), management could not provide adequate supporting documentation (invoices or other source documents) for contracted services amounts. The specific deficiencies and federal questioned costs are described in Table 1.

Table 1
ASD-Related Deficiencies and Federal Questioned Costs

Department Reimbursement Date	Consolidated Reimbursement Request Total	Known Questioned Costs	Deficiency Description
9/1/2015	\$138,585	\$2,050	ASD could not provide adequate supporting documentation.
10/14/2015	\$191,928	\$84,931	Payroll expenditures were not supported by Personnel Activity Reports (PARs) or semiannual certifications (\$65,601). Salary amounts could not be reconciled to the supporting documentation provided (\$15,186). Management did not provide supporting documentation for the employer-paid portion of medical insurance (\$4,144).
10/14/2015	\$520,326	\$280,184	Salary amounts could not be reconciled to supporting documentation provided (\$186,242). Payroll expenditures were not supported by PARs or semiannual certifications, and management did not provide supporting documentation for employees' salaries and benefits (\$90,822). Management overcharged the grant for contracted services (\$3,120).
11/5/2015	\$300,750	\$41,808	Payroll expenditures were not supported by PARs or semiannual certifications, and management did not provide supporting documentation for employees' benefits paid (\$27,514). Management overcharged the grant for payroll taxes (\$8). The PARs provided were insufficient, and management did not provide adequate supporting documentation for benefits paid (\$11,266). Supporting documentation for a contracted service was not provided (\$3,020).
12/24/2015	\$599,068	\$272,298	Payroll expenditures were not supported by PARs or semiannual certifications, and management did not provide supporting documentation for benefits paid (\$123,816). Management overcharged the grant for contracted services and payroll benefits (\$952). The PARs provided were insufficient, and management did not provide adequate supporting documentation for benefits paid (\$33,671). Salaries and benefit amounts could not be reconciled to supporting documentation (\$113,859).
Total Known Questioned Costs		\$681,271	

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.”

Cause

Based on discussion with the Director of Fiscal Strategy, former ASD finance and federal programs employees did not fully understand federal cost principles and what constitutes appropriate, sufficient documentation of costs charged to federal programs.

Additionally, Department of Education staff did not properly review the supporting documentation submitted by ASD before paying the reimbursement requests.

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.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in section 200.207, “Specific conditions:”

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Results of Additional Audit Work – After Corrective Action

To adequately assess the effectiveness of management’s corrective action, we expanded our work by testing two additional ASD consolidated reimbursement requests, totaling \$1,655,149.78, that the department paid after our audit period of July 1, 2016, through November 11, 2016. Based on testwork performed, we determined that management ensured

that these consolidated reimbursement requests were properly supported before initiating payment to ASD.

Risk Assessment

In the department's 2015 annual risk assessment, management identified the risk of costs charged to federal programs not being adequately documented at the department level or the subrecipient level. To mitigate this risk, management stated that they would continue training subrecipients and conducting program and fiscal monitoring.

Recommendation

The Commissioner of the Department of Education should continually assess the newly implemented processes and internal controls to ensure they are operating effectively.

Management's Comment

We concur. The Achievement School District (ASD) and the processes that support the ASD's operations have been thoroughly evaluated since the prior audit period. The corrective actions implemented as of January 2016, have improved the policies, processes, and procedures for the accurate and effective handling of federal funds and internal controls. The questioned costs and internal control issues noted above occurred prior to these improvements, and the department is pleased that the updated practices corrected these procedural issues as evidenced in the sample items post-corrective actions.

The department will work with the appropriate program officers at the US Department of Education to address the identified questioned costs, and will continue to monitor and to improve the policies, procedures, and internal controls within the ASD's fiscal and federal programs operations.

In addition, the new controls will be evaluated for their effectiveness in mitigating the identified risks. The annual risk assessment will be updated to reflect the implementation of these controls and the mitigation of the identified risks.

Finding Number	2016-011
CFDA Number	66.458
Program Name	Clean Water State Revolving Fund Cluster
Federal Agency	Environmental Protection Agency
State Agency	Department of Environment and Conservation
Federal Award	
Identification Number	CS-47000112, C-47000113, CS-47000114, CS-47000115
Federal Award Year	2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Environment and Conservation did not always comply with federal and state requirements for subrecipient monitoring

Condition

We tested every subrecipient contract for the Clean Water State Revolving Fund (the fund) that was active more than three years as of October 1, 2015. The department did not monitor 9 of 12 subrecipient contracts (75%) at least once every three years as required by state policy.

The monitoring plan that the department submitted to the State's Central Procurement Office (CPO) for fiscal year 2016 incorrectly excluded 7 of 55 subrecipient contracts (13%) for the fund. The 7 contracts had a balance of \$34,593,924.99.

We tested all monitoring reviews completed during fiscal year 2016 for the fund. Management did not issue a monitoring report within the required 30 business days after completing all field work for 3 of 5 reviews (60%). These 3 reports were issued 5 to 14 business days late, an average of 9 days late. One of these 5 monitoring reports had a finding. Management did not approve, reject, or request additional information for the corrective action plan submitted by the subrecipient.

The department had a process to ensure that subrecipients receiving over \$500,000 in federal funds through the department submitted audit reports to the Federal Audit Clearinghouse. Staff, however, did not document a review of these audit reports for any related findings during this federal reporting process.

Criteria

CPO Policy 2013-007, Section 9.1, General Requirements for all Subrecipient Contracts, states that "all subrecipient contracts must be monitored by the Grantor State Agency at least once every three years. This does not mean that all subrecipient contracts for a term of one year must be monitored."

CPO Policy 2013-007, Section 9.2.1, Monitoring Plan Components, states that “the monitoring plan is a summary of the Grantor State Agency’s planned monitoring activities for the upcoming annual monitoring cycle and shall include: the total subrecipient contracts population.”

CPO Policy 2013-007, Section 9.2.5, Monitoring Reports and Corrective Action Plans, states that the “Grantor State Agencies shall issue reports summarizing any findings or observations identified during monitoring activities within thirty (30) business days of completing all field work.” This section also states that “upon receipt of a monitoring report with findings, the Subrecipient shall prepare a corrective action plan detailing the actions to be taken to correct such findings.” In addition, this section states that “the corrective action plan shall be submitted to the Grantor State Agency for review and approval. The Grantor State Agency shall have thirty (30) business days to approve, reject, or request additional information about the Subrecipient’s plan.”

Title 2, *Code of Federal Regulations*, Part 200, Section 521(c and d) requires that a pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the Federal Audit Clearinghouse for audit findings that relate to federal awards the entity makes to subrecipients.

Cause

Management did not ensure that staff understood and followed federal and state subrecipient monitoring requirements. Also, management and staff were unclear as to whose responsibility it was to follow-up and approve or reject the corrective action plans submitted by subrecipients. Management also stated that shortness of staff available to perform monitoring procedures contributed to the problems noted.

Effect

If the department does not follow federal and state requirements governing its responsibility as a pass-through entity, it increases the risks of noncompliance, fraud, waste and abuse by subrecipients.

Recommendation

Management should ensure that staff receive training to understand federal and state requirements for subrecipient monitoring. Management should also ensure that staff are properly supervised and are following all monitoring requirements. In addition, management should ensure that staff document a review of audit reports issued for subrecipients for related findings and issue management decisions within six months of the receipt of the audit report by the Federal Audit Clearinghouse.

Management’s Comment

- a. **We tested every sub-recipient contract for the Clean Water State Revolving Fund (the fund) that was active more than three years as of October 1, 2015. The**

department did not monitor 9 of 12 sub-recipient contracts (75%) at least once every three years as required by state policy.

The Department (TDEC) concurs that 9 of 12 Clean Water State Revolving Fund (the fund) contracts, which were active more than three years as of October 1, 2015, were not reviewed in the required three year cycle. The Department was aware of the three cycle requirements and has been proactive in restructuring procedures in response to the CPO Policy 007 revision which was implemented at the start FY 14. The Department administers grant funding through multiple environmental programs with contracts ranging from one to five years, with renewal or extension options, if elected, totaling in upwards of 350 or more contracts in any given fiscal year. Due to the significance, risk sensitivity, and staffing limitations, the Department conformed to a risk-based approach for determining those contracts that posed the greatest risk of noncompliance to the agency. Also, in order to address the Policy 007 requirements of reviewing all active contracts at least once in a three year cycle, management incorporated contract aging into the population determination process of the Annual Sub-recipient Monitoring Program Plan submitted to the Central Procurement Office (CPO). Additionally for uniformity purposes, the department automated the sub-recipient monitoring review process.

- b. The monitoring plan that the department submitted to the State's Central Procurement Office (CPO) for fiscal year 2016 incorrectly excluded 7 of 55 subrecipient contracts (13%) for the fund. The 7 contracts had a balance of \$34,593,924.99.**

The Department concurs. The agency's annual monitoring plan submitted for FY16 inadvertently excluded 7 of 55 subrecipient contracts for the fund. The information collected to comprise the subrecipient contract population was not verified independently to ensure all active contracts were adequately represented. The agency will in the future confirm the contracts contained within the population, internally with the Division of Water Resources-State Revolving Fund and externally with the Tennessee Local Development Authority (TLDA) in subsequent fiscal years.

- c. We tested all monitoring reviews completed during fiscal year 2016 for the fund. Management did not issue a monitoring report within the required 30 business days after completing all field work for 3 of 5 reviews (60%). These 3 reports were issued 5 to 14 business days late, an average of 9 days late. One of these 5 monitoring reports had a finding. Management did not approve, reject, or request additional information for the corrective action plan submitted by the subrecipient.**

The Department concurs. The final report for 3 of 5 monitoring reviews completed during FY 16 were not issued within the required 30 business days after completing all field work. Additional request for information following the end of fieldwork (Exit Conference date) was not properly maintained. Management has implemented procedures to properly track report issuance dates. This tracking procedure will also have alerts set in Outlook to notify management of any reporting deadlines. Additionally, the State Revolving Fund Management of Water Resources has implemented an internal policy to ensure monitoring reports requiring a

corrective action plan, subsequently receives a response from management approving, rejecting, or requesting additional information.

- d. The department had a process to ensure that sub-recipients receiving over \$500,000 in federal funds through the department submitted audit reports to the Federal Audit Clearinghouse. Staff, however, did not document a review of these audit reports for any related findings during this federal reporting process.**

The Department concurs. Management currently has a process for ensuring subrecipients receiving over \$500,000.00 in federal and state funds through TDEC submit their audit report to the Federal Audit Clearinghouse. The Department begins this process by mid-March of each year by taking the annual monitoring plan population and comprising a sample of those sub-recipients that received funds of \$500,000.00 or more. Once the sample is comprised, management begins to search, download, and save the sub-recipients Independent Audit Report/Single Audit Report and audit information from the Tennessee Comptroller of the Treasury and the Federal Audit Clearinghouse websites and log the dates the searches were conducted. If the information cannot be located, subsequent searches are conducted until early-May of each year. During the timeframe stated above, management also reviews each Single Audit report for findings, if any, listed that are related to funding received from TDEC. Those sub-recipients that are found to be in non-compliance are issued a failure to comply letter and are requested to provide either the Single Audit report or confirmation that the information was uploaded to the Federal Audit Clearinghouse. There were no findings listed in the audit reports related to funding received from TDEC. Conversely, the tracking format did not document when the audit reports were reviewed internally. Management has updated the tracking confirmation spreadsheet to include the Department's review of each audit report for findings that requires response by TDEC standard of measurement. The importance and commitment to excellence in enhancing the quality of life for citizens of Tennessee, as well as, being stewards of our natural environment, will continue to be the agency's priority.

Finding Number	2016-012
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Federal Award Identification Number	05-1505TN5ADM, 05-1605TN5ADM, 05-1505TN5MAP, 05-1605TN5MAP
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Division of Health Care Finance and Administration did not provide adequate internal controls in two specific areas

The Division of Health Care Finance and Administration had significant deficiencies in internal controls in two specific areas. We observed conditions in violation of state policies. Inconsistent implementation of internal controls increases the risk of fraudulent activity.

The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the division with detailed information regarding the specific conditions we identified, as well as our 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. In addition, management should ensure that these controls include ongoing monitoring of their effectiveness and should take all steps available to establish or improve any compensating controls until these conditions are remedied. Finally, management should ensure the conditions associated with this finding are adequately identified and assessed in the division's documented risk assessment.

Management's Comment

We concur with the finding. Several of the noted exceptions predate current HCFA provisioning processes, as corrective action was taken to address the underlying issues prior to the current audit period. However, for these issues as well as the exceptions that occurred during the current audit period, HCFA IS has implemented enhanced procedures and monitoring to ensure compliance.

Finding Number	2016-013
CFDA Number	10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, 93.575, 93.596, 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 Child Care and Development Fund Cluster Disability Insurance/Supplemental Security Income Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Federal Award Identification Number	2013IS251445, 2014IS251445, 2015IS251445, 201616S251445, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 201616N109945, H126A100063, H126A120063, H126A130063, H126A140063, H126A150063, H126A160063, G1202TNTANF, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1602TNTANF, HSCHLDSUPPORT12, HSCHLDSUPPORT13, HSCHLDSUPPORT14, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1401TNCCDF, G1501TNCCDF, G1601TNCCDF, 8826 04-13-04TND100, 8826 04-14-04TND100, 8826 04-15-04TND100, and 8826 04-16-04TND100
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2015-045
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not provide adequate internal controls in three areas, including one area noted in the two prior audits

Condition, Criteria, Cause, and Effect

The department did not design and monitor internal controls in three specific areas, including one area that we noted in the two prior-year audits. These conditions were in violation of state policies and/or industry-accepted best practices. In their response to the prior-year finding,

management agreed that internal controls need to be improved and provided details of corrective action. However, the condition continued to exist during the audit period. Ineffective internal controls increase 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 conditions we identified, as well as our recommendations for improvement.

Recommendation

Management of the Department of Human Services should continue pursuing efforts to implement and improve internal controls as detailed in the confidential finding for each area.

Management's Comment

The Department concurs.

The Department delivered a confidential response.

Finding Number	2016-014
CFDA Number	10.558, 10.559, 10.561, 10.598, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, 93.778, and 96.001
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Supplemental Nutrition Assistance Program Cluster Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants 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/Supplemental Security Income Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Federal Award Identification Number	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 201616N109945, 2013IS251445, 2014IS251445, 2015IS251445, 201616S251445, 2015IS810621, H126A100063, H126A120063, H126A130063, H126A140063, H126A150063, H126A160063, G1202TNTANF, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1602TNTANF, HSCHLDSUPPORT12, HSCHLDSUPPORT13, HSCHLDSUPPORT14, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1401TNCCDF, G1501TNCCDF, G1601TNCCDF, G1101TNCCDF, G1201TNCCDF, G1301TNCCDF, G1401TNSOSR, G1501TNSOSR, G1601TNSOSR, 05-1505TN5MAP, 05-1605TN5MAP, 8826 04-13-04TNDI00, 8826 04-14-04TNDI00, 8826 04-15-04TNDI00, and 8826 04-16-04TNDI00
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency (10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.778, and 96.001) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2015-019
Pass-Through Entity	N/A

Questioned Costs

Federal Award		
CFDA	Identification Number	Amount
10.561	2013IS251445	\$512
10.561	2015IS251445	\$297,414
10.561	201616S251445	\$867,160
10.598	2015IS810621	\$666,062
84.126	H126A150063	\$71,202
84.126	H126A160063	\$228,606
93.558	G1402TNTANF	\$191,846
93.558	G1502TNTANF	\$151,346
93.558	G1602TNTANF	\$43,733
93.563	HSCHLDSUPPORT15	\$302,643
93.563	HSCHLDSUPPORT16	\$116,281
93.667	G1401TNSOSR	\$2,259
93.667	G1501TNSOSR	\$62,300
93.778	05-1505TN5MAP	\$38,326
93.778	05-1605TN5MAP	\$42,121
96.001	8826 04-15-04TNDI00	\$36,002
96.001	8826 04-16-04TNDI00	\$65,125

As noted in the prior audit, 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 \$3,182,938

Background

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; 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.

In the prior audit, we found that department management did not amend the cost allocation plan to include new activity codes, and department fiscal staff allocated expenditures using methodologies that were inconsistent with the current approved cost allocation plan. Department management concurred in part with the prior-year finding and stated, “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 45 CFR 95.509.” Based on discussion with the Department Accounting Director¹¹ during our current fieldwork, however, department management still has not submitted an updated plan. In addition, we found that department fiscal staff continued to use cost allocation procedures that were inconsistent with the approved cost allocation plan.

Summary of Conditions

Based on our audit procedures, we found that the department’s fiscal staff

- did not amend the cost allocation plan to include all activities and used allocation methodologies that were inconsistent with the approved cost allocation plan (Condition A); and
- did not amend the cost allocation plan to address unreasonable and outdated allocation methodologies (Condition B).

Condition A. Failure to Amend the Cost Allocation Plan to Include Activities and to Use Allocation Methods Consistent with the Plan

For our audit period of July 1, 2015, through June 30, 2016, 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 expenditure costs to grants with all 398 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 staff actually used multiple activity codes for the program to provide for a greater level of detail in accounting records.)

¹¹ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services’ fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

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 each activity code had a related activity description included in the plan.

If the activity description was included in the plan, we then determined whether DHS used the allocation method described in the plan for that description.

A total of \$370,961,647 of the department's expenditures during our audit period were subject to allocation under the cost allocation plan. (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.) Based on our review, we found that DHS' former Deputy Commissioner of Finance and Administration¹² failed to ensure that DHS' cost allocation plan was amended to include all activity codes or that costs were allocated to programs according to the methodologies in the approved cost allocation plan.

Failure to Amend the Cost Allocation Plan to Ensure All Activity Codes Were Included

Codes not included but allocation methodologies were consistent with methodologies for included activities

DHS' former Deputy Commissioner of Finance and Administration failed to ensure the cost allocation plan was amended to include 141 activity codes the department used in the state's accounting system, Edison, to allocate costs. Expenditures charged to these 141 activity codes totaled \$44,103,720. See Table 1 for the total expenditures charged to each federal program.

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

Program	Federal Expenditures	State Expenditures	Program Income Expenditure*	Total Expenditures
State Activities**	\$ -	\$1,048,570	\$ -	\$1,048,570
CACFP	35	-	-	35
CCDF	151,626	648,587	-	800,213
CSBG	4,921	-	-	4,921
CSE	1,697,302	833,342	-	2,530,644
CSER	40,905	-	-	40,905
ILOB	1,015,631	-	-	1,015,631
MAP	1,926,193	1,926,514	-	3,852,707
SAE	-	2,045	-	2,045
SFSP	40,140	-	-	40,140
SNAP	7,275,981	3,347,885	-	10,623,866
SNAPT	666,062	-	-	666,062

¹² The former Deputy Commissioner of Finance and Administration left the department as of August 31, 2016.

SSBG	247,157	-	-	247,157
SSDI	687,692	-	-	687,692
TANF	10,399,636	4,618,929	-	15,018,565
VR	5,897,417	1,621,281	5,869	7,524,567
Total	\$30,050,698	\$14,047,153	\$5,869	\$44,103,720

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

* Program income expenditures are expenditures funded using program income.

** "State Activities" refers to expenditures funded using state funds that were not recorded in the accounting system as matching expenditures for federal programs or expenditures used to meet level of effort requirements for federal programs.

CACFP - Child and Adult Care Food Program

CCDF - Child Care and Development Fund

CSBG - Community Services Block Grant

CSE - Child Support Enforcement

CSER - Child Support Enforcement Research

ILOB - Independent Living Services for Older Individuals Who are Blind program

MAP - Medical Assistance Program (Medicaid)

SAE - State Administrative Expenses for Child Nutrition

SFSP - Summer Food Service Program for Children

SNAP - Supplemental Nutrition Assistance Program

SNAPT - Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants

SSBG - Social Services Block Grant

SSDI - Social Security Disability Insurance

TANF - Temporary Assistance for Needy Families

VR - Vocational Rehabilitation Grants to States

For 129 of these 141 activity codes, we found that even though fiscal staff had not included a activity code in the cost allocation plan (either in the original submission or through amendments), fiscal staff allocated costs associated with the 129 activity codes in the same manner as (or similarly to) other similar program activities which had been included and approved in the plan. Because we found these allocations methods consistent with the plan, we did not question costs even though the activity codes were not technically approved in the plan. We are required, however, to report the department's noncompliance with 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.

Codes not included and allocation methodologies were inconsistent with methodologies for included activities

For the remaining 12 activity codes that were not included in the approved cost allocation plan, we found that the department's fiscal staff allocated expenditures using methodologies that were inconsistent with any of the approved allocation methodologies identified in the cost allocation plan for similar activities. Specifically, we noted the following:

- 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 \$598,776 in expenditures for this activity were charged to TANF.
- For the remaining 11 activity codes, totaling \$4,934,917 in expenditures, the approved cost allocation plan required 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 by the results of random moment time sampling systems. Instead of allocating the costs to *all* programs using these bases, we found that fiscal staff allocated costs for the 11 activity codes to 3 or fewer programs, depending on the activity code.

The expenditures charged to federal programs as a result of allocation methodologies that were not similar to methodologies already approved in the current cost allocation plan are summarized in Table 2.

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

	Federal Expenditures	State Expenditures	Total Expenditures
State Activities	\$ -	\$292,328	\$292,328
CCDF	-	150,521	150,521
CSE	418,924	215,811	634,735
MAP	80,447	80,446	160,893
SAE	-	523	523
SNAP	1,165,086	1,162,853	2,327,939
SNAPT	666,062	-	666,062
SSBG	64,559	-	64,559
SSDI	101,127	-	101,127
TANF	386,925	367,125	754,050
VR	299,808	81,148	380,956
Total	\$3,182,938	\$2,350,755	\$5,533,693

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

Condition B. Failure to Amend the Plan to Address Unreasonable and Outdated Allocation Methodologies

Unreasonable Allocation Methodologies

During our audit testwork, we noted situations where the department did not adhere to its approved cost allocation plan, but adhering to the plan would have been inappropriate because the cost allocation plan itself was unreasonable. As detailed below, adhering to these areas of the plan would result in fiscal staff charging federal programs for activities that did not benefit those federal programs. Even though the department did not allocate costs in accordance with the plan for the following areas, we did not question costs as a result of these methodologies, because adhering to these methodologies would have led to an inappropriate allocation of costs. We noted the following two areas of the cost allocation plan appeared unreasonable:

- The department's cost allocation plan states that the department will allocate costs for Child Support Field Operations, Child Support Fiscal staff, and Child Support System User Support (which incur the majority of costs for the Child Support Enforcement program) using Table 9. Based on review of the department's accounting records, the department incurred \$47,771,115 in expenditures related to these three sections during the audit period. This table is created using the average number of information systems support staff assigned to each federal program. This table allocates costs to most federal programs, including CCDF, CSE, MAP, SAE, SNAP, TANF, SSBG, and VR. Based on discussion with Child Support Enforcement management and review of the cost allocation plan's description of the activities for the Child Support Enforcement division, Child Support staff usually work exclusively on the Child Support Enforcement program, do not perform duties for other federal programs, and were not spending substantial portions of their time working on other programs when the cost allocation plan was approved. We found that the department fiscal staff do not use Table 9 to allocate costs for divisions within the CSE group, as required by the cost allocation plan. Instead, fiscal staff charge 100% of costs to the CSE program. Since it would be unreasonable to allocate CSE costs using Table 9, we concluded that this component of the cost allocation plan was unreasonable.
- The cost allocation plan establishes two different methodologies for allocating costs for eligibility processing centers and service centers. Staff working within eligibility processing centers determine the eligibility for individuals seeking benefits for SNAP, TANF, TennCare/Medicaid, and CCDF. Staff working within a service center provide information to clients and the general public about the programs administered by the department. Service centers answer calls related to most of the federal programs administered by the department, including programs for which the eligibility processing centers do not perform eligibility determinations. The cost allocation plan states that eligibility processing centers should have all costs allocated via Table FA-5M, the same table used for service centers. We found that the department did not use Table FA-5M to allocate costs for eligibility centers; however, we concluded that it would be unreasonable to adhere to the plan in this situation. Specifically, we concluded that it would be inappropriate to use table FA-5M to allocate eligibility center costs, since FA-5M allocates costs to programs for which eligibility processing centers do not make eligibility determinations. Since one of the basic cost principles is that federal programs should be charged based on the relative benefits the programs receive, programs receiving no benefit from the eligibility determination centers' activities should not be charged a portion of the centers' costs. Instead of using Table FA-5M, fiscal staff treated staff working within the centers as Family Assistance Field Staff, and allocated costs in accordance with the random moment time sampling methodologies approved in the plan for Family Assistance Field Staff. We concluded that this alternative method led to a reasonable allocation of costs.

Outdated Allocation Methodologies

We found that the department did not create cost allocation table FA-5M in accordance with the plan. The cost allocation plan states that Table FA-5M is to be created using the Call Count

basis. The example table in the plans' appendix further states that the table should be created using call data. We found that in addition to calls, the department started including emails and online chats performed in the data used to create Table FA-5M in April 2015. The plan lists no other details or narrative for the creation of this table, but does provide a narrative for Family Assistance Service Center (FASC), which is the only area the department uses this basis in creating a cost allocation table. The plan states:

The FASCs provide call center services to clients and the general public about the programs administered by the department. FASC employees link all calls to the appropriate benefitting program(s) by utilization of the FASC data collection system.

To ensure reliability for the fair and equitable distribution of costs to each benefitting program, the department continuously evaluates its use of methodologies of allocation. Should an update to the procedures described here result in an estimated cost impact to any federal partner, an amendment to this approved cost allocation plan will be prepared and submitted for approval.

Since the plan does not list emails and online chats as part of the basis used to create Table FA-5M, and since the plan states that any update to the procedures described will result in an amendment prepared for the cost allocation plan, we concluded that the department should have submitted an amendment to the cost allocation plan as required.

We included the matters identified above in this finding because the methodologies were unreasonable and outdated but the department did not amend its plan prior to adjusting its allocation methodology, as required.

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 benefitting 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, 45 CFR 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.

45 CFR 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 Department Accounting Director, there was a disconnect between personnel responsible for the allocation of costs and those responsible for the cost allocation plan. According to the Department Accounting Director, the department made changes to the cost allocation methodologies, but the department did not revise the cost allocation plan to reflect these changes. 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 during the audit period.

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. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as

described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

As a result of the department's use of allocation methodologies that were not similar to approved methodologies, we questioned \$3,182,938 in federal expenditures and \$2,350,755 in state matching expenditures charged to federal programs. See Table 2 above for the breakdown of costs by program.

2 CFR 200.516(a)(3) requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

2 CFR 200.516(a)(4) also requires us to report known questioned costs greater than \$25,000 for a federal program that is not audited as a major program. This finding includes known questioned costs greater than \$25,000 for the following programs that were not audited as major programs: Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants and Social Services Block Grant.

2 CFR 200.84 defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, were not supported by adequate documentation; or if the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Commissioner, in consultation with the appropriate staff within the Department of Finance and Administration, should ensure 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's Comment

Condition A:

The Department Concurs in part.

The cost allocation plan was not amended to include all activity codes.

In regards to the 12 omitted codes, where the captured and properly allocable costs were allocated using methodologies not specifically prescribed by the cost allocation plan, the department believes an important consideration that was not mentioned is that while the 12 activity codes noted in the finding may not have been charged in accordance with (or consistent with) the approved plan, the costs were charged to the benefiting objectives. Specifically,

- a.) The Medical Evaluation Unit previously processed cases for Temporary Assistance for Needy Families (TANF) as well as Medicaid. For state fiscal year 2016, the unit only handled TANF cases; therefore, the \$598,776 was charged to TANF, the benefiting program.
- b.) For the remaining 11 activity codes, totaling \$4,934,917, the allocation methodologies used to charge the benefiting programs are shown in the table below:

Dept	Program	Total (Rounded)	Unit	Allocation Basis	Program
3450103200		237,249	OLPD Child Support (1)	Direct	100% Child Support
3450103300		790,951	OLPD Family Assistance (1)	RMS	100% Family Assistance (Table FA-2)
3450103400		154,635	OLPD Child Care (1)	Total Costs	100% Child Care (Table 8)
3450103500		204,719	OLPD Adult Protective Services (1)	Direct	100% APS
3450103600		392,113	OLPD Rehab Services (1)	Direct	100% VR
3450103700		103,643	OLPD DDS (1)	Direct	100% DDS
3450105100	320001	666,062	SNAP Trafficking (2)	Direct	100% SNAP Trafficking Program
3450108300	300015	512	Fiscal Admin (3)	Avg FTE Count	Table 1
3451005400		1,779,258	Used to be 3450105400	Direct	100% SNAP (4)
3451005403		204,720	Used to be 3450105403	Direct	100% SNAP (4)
3451302200	10006	401,055	Child Support System Inquiries	Direct	100% Child Support (5)

		\$4,934,917	Total Cost for 11 Activity Codes		
Response a		598,776	Medical Evaluation Unit		See item a above
		\$ 5,533,693	Total Costs		

- (1) While the cost allocation plan indicates that OLPD costs would be treated as indirect costs, costs were allocated as direct costs to the benefiting objectives for 4 of the 6 Department IDs, which is believed to be more accurate. OLPD staff in each area work solely on the benefiting objectives for which they were charged. For OLPD staff benefiting Family Assistance and Child Care, the costs were allocated using the same methodology that is used to allocate other staff in those areas of responsibility.
- (2) The SNAP trafficking costs were allocated as direct SNAP trafficking charges.
- (3) The Fiscal Administration cost is for State Exchange expenditures for approved travel. The amount should not be cost allocated.
- (4) These two Department IDs were previously allocated by table 11 (SNAP and Medicaid). The units have not been responsible for Medicaid related activities since state fiscal year 2014; therefore, all costs were allocated to SNAP.
- (5) Department ID 3451302200 for Child Support System Inquiries has not been utilized for cost allocation purposes since August 2015. Charges to this Department ID were the result interdepartmental billings for direct services provided to child support and allocated accordingly.

Condition B:

The Department concurs.

The cost allocation plan is outdated and should be updated. Please see corrective actions for both conditions below:

Corrective action for all conditions:

Plan Revision

The Department is currently in the process of revising the cost allocation plan. The plan is to take effect beginning April 1, 2017.

Automated Cost Allocation System

The Department is in the process of implementing software to automate the process of adjusting estimated costs to actual. The implementation of the software has taken longer than anticipated due to the current complexity of the Department's cost allocation plan as well as the volume of

transactions that must be processed by the automated system. A successful test of the system was completed February 15th. The Department expects to have the new system operational by September 2017.

Organizational Structure

The administration of the Department's cost allocation plan and the adjustments to estimated costs were performed in a decentralized manner prior to December 2016. A cost allocation manager position was created in December 2016 to oversee the Department's cost allocation processes. The position's primary responsibilities are to ensure that costs adhere to the cost allocation plan. The position is also responsible for ensuring the cost allocation plan is updated when required. A centralized unit for cost allocation activities will increase accuracy and timeliness of cost allocation entries and provide for greater controls over the cost allocation process in general.

Finding Number	2016-015
CFDA Number	10.558, 10.559, 10.560, 10.561, 84.126, 84.177, 93.464, 93.558, 93.563, 93.575, 93.596, 93.778, and 96.001
Program Name	Child and Adult Care Food Program Child Nutrition Cluster State Administrative Expenses for Child Nutrition Supplemental Nutrition Assistance Program Cluster Rehabilitation Services – Vocational Rehabilitation Grants to States Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind ACL Assistive Technology Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Medicaid Cluster Disability Insurance/Supplemental Security Income Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Federal Award Identification Number	2014IN109945, 201616N109945, 2014IN253345, 2015IN253345, 201616N253345, 2015IS251445, 201616S251445, H126A130063, H126A140063, H126A150063, H126A160063, H177B140042, H177B150042, H177B160042, 90AG0020-01-00, 1601TNSGAT, G1402TNTANF, G1502TNTANF, G1602TNTANF, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1501TNCCDF, G1601TNCCDF, 05-1505TN5MAP, 05-1605TN5MAP, 8826 04-14-04TNDI00, and 8826 04-16-04TNDI00
Federal Award Year	2013 through 2016
Finding Type	Significant Deficiency (10.558, 10.559, 10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.778, and 96.001) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2015-020
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award Identification Number	Amount
10.560	2014IN253345	\$25,171
10.560	2015IN253345	\$33,621
10.560	201616N253345	\$2,906
10.561	2015IS251445	\$250,360
10.561	201616S251445	\$416,615

84.126	H126A130063	\$81,183
84.126	H126A140063	\$55,793
84.126	H126A150063	(\$14,076)
84.126	H126A160063	\$240,733
84.177	H177B140042	\$1,872
84.177	H177B150042	(\$889)
84.177	H177B160042	\$4,109
93.464	90AG0020-01-00	\$462
93.464	1601TNSGAT	\$117
93.558	G1402TNTANF	\$46,072
93.558	G1502TNTANF	\$91,173
93.558	G1602TNTANF	\$106,503
93.563	HSCHLDSUPPORT15	\$205,839
93.563	HSCHLDSUPPORT16	\$330,405
93.778	05-1505TN5MAP	\$102,240
93.778	05-1605TN5MAP	\$85,108
96.001	8826 04-14-04TNDI00	\$19,036
96.001	8826 04-16-04TNDI00	\$109,848

As noted in the prior audit, errors in the cost allocation process resulted in the department overcharging and undercharging federal programs for costs, resulting in federal questioned costs of \$2,194,201

Background

The Department of Human Services (DHS) administers various federal grants, including the Temporary Assistance for Needy Families; Child Care and Development Fund; Child Support Enforcement; Disability Insurance/Supplemental Security Income; Vocational Rehabilitation; Community Services Block Grant; 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 *Cost Allocation Plan for the TN Department of Human Services* dated July 1, 2014.

According to Title 45, *Code of Federal Regulations*, Part 95, Section 507(a), 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 management uses department and program codes in Edison, the state's accounting system, to track expenditures for DHS's programs and activities. For each combination of department and program codes identified in the cost allocation plan, management includes a brief description of

the activity or program; identifies whether the costs for the activity are allocated to all programs, multiple programs, or one program; and identifies the basis that staff use to allocate costs for the activity.

Each month, fiscal staff prepare monthly cost allocation tables. Generally, each table covers a specific activity that department staff perform for programs, identifies one or more federal programs to which costs for the activity should be charged, and identifies the percentage of costs associated with the specific activity that should be charged to each federal program.

Fiscal staff then use the cost allocation tables' percentages to prepare cost allocation spreadsheets that identify the amount of expenditures that fiscal staff should allocate to programs administered by DHS.

Finally, fiscal staff enter cost allocation entries into the department's accounting system based on the cost allocation calculations documented in the spreadsheets.

In the prior audit, we found that fiscal staff prepared cost allocation tables incorrectly. Department management concurred in part with the prior-year finding and stated, "The Department's internal controls identified the table errors in the subsequent month and corrected them going forward." As detailed below, during the current audit, we found that fiscal staff still did not prepare all cost allocation tables correctly, and we noted various other errors related to the department's cost allocation process. As a result of the errors identified during the current audit, we questioned a net¹³ total of \$2,194,201 in federal costs and \$1,767,245 in state matching costs.

Summary of Conditions

We tested the department's cost allocation processes for the months of December 2015 and March 2016. Based on testwork performed, we found that the department's fiscal staff did not allocate costs in accordance with the cost allocation plan and federal requirements. Specifically, we noted that fiscal staff

- prepared three cost allocation tables incorrectly (see Condition A),
- did not perform cost allocation adjusting entries for two sections within a division of the department (see Condition B),
- used the incorrect cost allocation tables to allocate costs for two sections (see Condition C), and
- used the prior month's cost allocation tables to allocate costs for a division (see Condition D).

¹³ Due to the nature of the cost allocation process, errors generally result in overcharging certain federal programs and undercharging others. After netting overcharges against any undercharges for the same federal program, we questioned the net amount by which each federal program was overcharged.

Condition A. Fiscal Staff Prepared Three Cost Allocation Tables Incorrectly

Based on our testwork, the department's fiscal staff prepared cost allocation tables 9A-2, CR-1, and 6 incorrectly, resulting in questioned costs totaling \$3,452,201.

Table 9A-2

Per the cost allocation plan, the department creates Table 9A-2 to allocate all expenses related to the Tech Support section. The plan states that Tech Support costs will be allocated based on device counts (the number of devices assigned to department staff). The plan also states that the department will use its inventory records to support the device count allocation methodology. We found that fiscal staff did not create Table 9A-2 using inventory records or any other information related to the number of devices.

Instead of counting the number of devices associated with staff assigned to each program, fiscal staff created Table 9A-2 based on the number of full-time personnel assigned to each program. We expanded our testwork for this issue to include the entire audit period, July 1, 2015, through June 30, 2016, and found that fiscal staff created this table improperly every month for the entire audit period. Since the department did not prepare Table 9A-2 based on device counts, as required in the plan, we questioned all costs allocated via Table 9A-2 for the audit period. This resulted in \$943,444 in federal questioned costs and \$769,052 in questioned costs related to state matching funds.

Table CR-1

Per the cost allocation plan, the department creates Table CR-1 to allocate all rent and office expenses related to the Citizen's Plaza State Office Building. The plan states that these costs will be allocated based on square footage. The plan also states that occupancy reports obtained from facility records will be used as the data to support the square footage allocation methodology.

Instead of using occupancy reports to identify the amount of square footage associated with each program, fiscal staff created Table CR-1 based on a count of full-time personnel assigned to each federal program. We expanded our testwork for this issue to include the entire audit period and found that fiscal staff created this table improperly every month for the entire audit period, because it was based on a methodology that was not approved in the plan. Since the department did not prepare Table CR-1 based on square footage as required by the plan, we questioned all costs allocated via Table CR-1 for the audit period. This resulted in \$996,200 in federal questioned costs and \$738,277 in questioned costs related to state matching costs.

Table 6

Per the cost allocation plan, the department creates Table 6 to allocate all costs related to the Supervision of Rehabilitation Services Accounting Unit, and allocations for the unit's costs are based on average filled positions in the Vocational Rehabilitation (VR) and Disability Determination Services (DDS) accounting units. We found that for the months of July 2015 through February 2016, fiscal staff included Child Support Enforcement (CSE) staff as well VR

and DDS staff when preparing the cost allocation table, which resulted in fiscal staff allocating costs to CSE. Because the plan does not include CSE staff as part of the allocation basis for the Supervision of Rehabilitation Services Accounting Unit activity, fiscal staff should not have included CSE in the table or allocated costs to CSE via this cost allocation table; therefore, we questioned all costs allocated to CSE using Table 6. This resulted in \$3,450 in federal questioned costs and \$1,778 in questioned costs related to state matching costs.

See Table 1 for the total amount of questioned costs by program due to cost allocation tables that were prepared based on allocation methodologies that were not authorized by the plan.

Table 1
Costs Allocated Through Unapproved Allocation Methods

Program	Federal Expenditures	State Expenditures	Total Expenditures
CACFP	\$ 14,139	\$ -	\$ 14,139
CCDF	-	302,067	302,067
CSBG	22,528	-	22,528
CSE	515,003	265,936	780,939
ILOB	3,552	395	3,947
MAP	118,470	118,550	237,020
SAE	59,417	-	59,417
AT	579	-	579
SNAP	644,332	644,332	1,288,664
SSBG	81,956	-	81,956
SSDI	51,943	-	51,943
TANF	135,024	97,743	232,767
VR	296,150	80,085	376,235
Grand Total:	\$1,943,093	\$1,509,108	\$3,452,201

CACFP – Child and Adult Care Food Program
CCDF – Child Care and Development Fund
CSBG – Community Services Block Grant
CSE – Child Support Enforcement
ILOB – Independent Living Services for Older Individuals Who are Blind Program
MAP – Medical Assistance Program (Medicaid)
SAE – State Administrative Expenses for Child Nutrition
AT – ACL Assistive Technology
SNAP – Supplemental Nutrition Assistance Program
SSBG – Social Services Block Grant
SSDI – Social Security Disability Insurance
TANF – Temporary Assistance for Needy Families
VR – Vocational Rehabilitation Grants to States

Condition B. Fiscal Staff Did Not Perform Cost Allocation Adjusting Entries for Two Sections

Based on our testwork, the department's fiscal staff did not perform all required cost allocation adjusting entries required by the cost allocation plan. Failure to perform such entries resulted in

fiscal staff charging estimated expenditures to federal programs instead of actual expenditures.¹⁴ We found that staff did not perform cost allocation adjusting entries for the following two sections.

Adult and Community Services Contract Review Section

The cost allocation plan requires fiscal staff to allocate costs related to the Adult and Community Services (ACS) Contract Review section to programs based on the contract expenditures allocation basis using Table ACS-8. Fiscal staff created this table for the entire audit period, but fiscal staff did not use the table to perform any cost allocation adjusting entries for this section. This resulted in the department not adjusting the original, estimated costs to the final, actual costs for the section.

We used Table ACS-8 to calculate the actual, final allocation of costs for the audit period. We then compared the results of the appropriate cost allocations to the department's original, estimated costs. The differences between our calculations and the department's estimated allocations are included in Table 2 below.

Adult Protective Services Section

The cost allocation plan requires fiscal staff to allocate costs related to the Adult Protective Services section to programs based on random moment sampling using Table ACS-3, which fiscal staff prepare on a quarterly basis. Fiscal staff created this table each month for the entire audit period, but fiscal staff did not use the table to perform any cost allocation adjusting entries for this section. This resulted in the department failing to adjust the original, estimated costs to the final, actual costs for the section, except for costs related to the Medical Assistance Program (MAP). Fiscal staff did use Table ACS-3 to adjust estimated costs to actual costs for MAP, as appropriate; however, we found that fiscal staff did not always use Table ACS-3 for the correct quarter to allocate costs to MAP. For example, for Adult Protective Services costs incurred during the month of October 2015, staff used the table created using sampling data from July 2015 through September 2015 to allocate the October 2015 costs. The July 2015 through September 2015 data indicated that staff spent 52% of their time on MAP activities, while the October 2015 through December 2015 data indicated that staff spent only 45% of their time on MAP activities during the quarter. Because MAP received the benefit of approximately 45% of the unit's activities during October through December, but was charged 52% of the unit's October costs, fiscal staff overcharged MAP by 7% of the section's October 2015 costs.

We used Table ACS-3 to calculate the actual, final allocation of costs for the audit period. We also recalculated MAP allocations using Table ACS-3 for the correct time periods. We then compared the results of the appropriate cost allocations to the department's allocations. The differences between our calculations and the department's allocations are included in Table 2 below.

¹⁴ For example, the department may originally charge \$150 to SNAP and \$150 to TANF during March. In April, once fiscal staff prepare the cost allocation tables for March, the March allocation tables may indicate that fiscal staff should reallocate the March costs – \$200 to SNAP and \$100 to TANF. In this example, failure to perform the adjusting entry for March would result in TANF being overcharged (and SNAP being undercharged) \$50.

Table 2
Differences Between Accurate Allocations and the Department's
Unadjusted Allocations*

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
MAP	\$37,216	\$37,216	\$74,432
SAE	30	-	30
TANF	70,224	-	70,224
Total	\$107,470	\$37,216	\$144,686
Amount Undercharged			
CSBG	\$(46,584)	\$ -	\$(46,584)
CCDF		(30)	(30)
SSBG	(112,222)	-	(112,222)
Total	\$(158,806)	\$(30)	\$(158,836)

*The differences related to our recalculation of MAP allocations, using Table ACS-3 for the correct time periods, are included in these amounts.

Condition C. Fiscal Staff Used the Incorrect Cost Allocation Tables to Allocate Costs for Two Sections

Based on our testwork, the department's fiscal staff did not use the correct cost allocation tables to prepare cost allocation adjusting entries related to two sections within the department.

Program Assessment Review Section

The cost allocation plan required fiscal staff to allocate costs for the Program Assessment Review Section based on workload hours using cost allocation Table 5. This table assigns costs to programs based on the number of hours employees work on different programs each month. We found that for January 2016 through June 2016, fiscal staff instead allocated costs based on Table 1, which allocates costs to all programs based on the overall number of full-time equivalent employees within the entire department. We also found that for February 2016 and March 2016, fiscal staff did not prepare Table 5.

For January 2016 and April 2016 through June 2016, we used Table 5 to calculate the correct allocation of costs for the Program Assessment Review section and compared our results to the department's incorrect allocation results based on Table 1. We questioned costs for all federal programs overcharged as a result of using Table 1 instead of Table 5. In addition, for the two months where the department did not create Table 5, we questioned all costs allocated by the department using Table 1, because we could not determine the amount of costs that should have been allocated via Table 5. The questioned costs related to this matter are included in Table 3 below.

Family Assistance Renewal Processing Unit

Department fiscal staff's practice was to allocate costs for Family Assistance Renewal Processing units (which primarily perform eligibility processing for the SNAP, TANF, and MAP programs) using Table FA1-1. In accordance with the department's cost allocation plan, fiscal staff created this table using random moment sampling data. Family Assistance Service Centers, in contrast with eligibility renewal processing units, answer calls and emails pertaining to issues related to the above federal programs and other programs, and the cost allocation plan requires fiscal staff to allocate expenses related to service centers using Table FA-5M. Based on discussion with fiscal staff, department management converted a service center to a renewal processing unit in October 2014. The fiscal staff responsible for creating the cost allocation tables began to include the new renewal processing unit in the random moment time sampling procedures used to prepare FA1-1 cost allocation tables, as appropriate. However, the fiscal staff responsible for allocating costs based on cost allocation tables continued to use Table FA-5M instead of Table FA1-1 to allocate costs for the renewal processing unit.

We used Table FA1-1 to calculate the correct allocation of costs for the year for the renewal processing unit and compared our results to the department's improper calculations based on Table FA-5M. The differences between our calculations and the department's allocations are included in Table 3 below.

Table 3
Differences Between Accurate Allocations and the Department's
Allocations Based on the Incorrect Allocation Tables*

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
CCDF	\$ -	\$ 52,229	\$ 52,229
SAE	2,251	-	2,251
CSE	21,637	11,146	32,783
SSDI	76,941	-	76,941
SNAP	111,182	111,182	222,364
TANF	10,455	31,365	41,820
MAP	31,662	31,662	63,324
ILOB	1,540	171	1,711
VR	67,472	18,261	85,733
Total	\$323,140	\$256,016	\$579,156

Amount Undercharged			
CACFP	\$(253,962)	\$ -	\$(253,962)
CSBG	(80,903)	-	(80,903)
SFSP	(48,055)	-	(48,055)
SSBG	(5,164)	-	(5,164)
Total	\$(388,084)	\$ -	\$(388,084)

SFSP – Summer Food Service Program

*This table includes all costs charged to programs during February and March 2016 for the Program Assessment Review section.

Condition D. Fiscal Staff Used the Prior Month's Cost Allocation Tables to Allocate Costs for a Division

Based on our testwork, we found that the department allocated all costs incurred by the Family Assistance division during March 2016 using cost allocation tables created for February 2016. We found that fiscal staff created the correct tables for March 2016 but failed to use the correct tables to allocate costs. After we brought this matter to their attention, fiscal management addressed the matter promptly by calculating allocation results for this division using the correct cost allocation tables for March, comparing the results to the department's allocation results using the incorrect tables, and entering a correcting journal entry in the department's accounting records to resolve the error.

Because the department's controls were not sufficient to identify and correct the error and because management did not correct the error until after the audit period, we questioned costs for overcharges to federal programs resulting from the department's use of the prior month's cost allocation tables. The impact that fiscal staff's use of prior period allocation tables had on federal programs is exhibited in Table 4 below.

Table 4
Differences Between Accurate Allocations and the Department's Use of the Incorrect Month's Tables

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
CCDF	\$ -	\$25,630	\$25,630
SSBG	227	-	227
TANF	28,045	28,045	56,090
VR	11	3	14
Total	\$28,283	\$53,678	\$81,961
Amount Undercharged			
CSE	\$ (396)	\$ (204)	\$ (600)
SNAP	(88,539)	(88,539)	(177,078)
Total	\$(88,935)	\$(88,743)	\$(177,678)

Criteria

Title 45, *Code of Federal Regulations* (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 Title 2, CFR, Part 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.

Title 2, CFR, Part 200, Section 405(d) states,

Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then . . . the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Cause

We concluded that the issues identified above were primarily the result of the department not assigning a member of fiscal management the task of overseeing and monitoring the entire cost allocation process to ensure that fiscal staff allocated costs in accordance with the allocation plan. As a result, staff responsible for individual tasks within the process did not appear to be aware of the cost allocation plan’s requirements and operational changes that affected the cost allocation process. After the audit period, the Department Accounting Director¹⁵ assigned these duties to a Fiscal Director.

Effect

Failure to allocate costs in accordance with the cost allocation plan and federal requirements increases the risk that fiscal staff will fail to assign an appropriate share of costs to programs and that federal grantors will disallow costs charged to federal programs.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding

¹⁵ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing DHS's fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We questioned a total of \$3,961,446 due to the net amount of overcharges to federal programs, consisting of federal questioned costs of \$2,194,201 and \$1,767,245 in questioned costs related to state matching funds. See Table 5 for details regarding all overcharges and undercharges.

Table 5			
Summary of All Questioned Costs and Undercharges			
Program	Federal Expenditures	State Expenditures	Total Expenditures
Amounts Overcharged			
CCDF	\$ -	\$ 379,896	\$ 379,896
CSE	536,244	276,878	813,122
ILOB	5,092	566	5,658
MAP	187,348	187,428	374,776
SAE	61,698	-	61,698
AT	579	-	579
SNAP	666,975	666,975	1,333,950
SSDI	128,884	-	128,884
TANF	243,748	157,153	400,901
VR	363,633	98,349	461,982
Total	\$2,194,201	\$1,767,245	\$3,961,446
Amounts Undercharged			
CACFP	\$(239,823)	\$ -	\$(239,823)
CSBG	(104,959)	-	(104,959)
SFSP	(48,055)	-	(48,055)
SSBG	(35,203)	-	(35,203)
Total	\$(428,040)	\$ -	\$(428,040)

As noted above in Condition D, \$81,962 of the questioned costs related to Condition D were resolved after the audit period; therefore, fiscal staff corrected the errors that led to \$81,962 of the questioned costs in Table 5 above.

This finding, in conjunction with finding 2016-016, results in total known federal questioned costs exceeding \$25,000 for a federal program which is not audited as a major program.

2 CFR 200.516(a)(3) requires us to report known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. 2 CFR 200.516(a)(4) requires us to report known questioned costs that are greater than \$25,000 for a federal program which is not audited as a major program. 2 CFR 200.84 defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Department Accounting Director should ensure that fiscal staff and management establish adequate internal controls to resolve all errors noted above. This process should include drafting written policies to clarify responsibilities and procedures related to the cost allocation process,

and creating accompanying monitoring procedures to ensure the policies are enforced. In addition, the Department Accounting Director should ensure that fiscal staff prepare all cost allocation tables using the appropriate allocation bases and allocate all costs subject to the cost allocation plan using the appropriate allocation tables for the appropriate time periods.

Management's Comment

Condition A

The Department concurs in part.

The Department concurs that three cost allocation tables were not prepared in accordance with the cost allocation plan. The Department, however, expresses concern relative to the condition's non recognition of the fact that the approach utilized to create the tables ultimately resulted in costs being distributed to the involved programs in a more equitable manner than would have occurred had the tables been prepared exactly as described in the plan. Therefore, the Department does not concur with the questioned costs. For example, the table preparation methods outlined in the plan do not adequately reflect the departmental practices. For Tables 9A-2 and CR-1, the allocation statistics outlined in the plan (device counts and square footage, respectively) would result in stagnant allocation statistics being applied to costs. A methodology for updating the statistics on a regular basis was not developed; therefore, the statistics were not used. The statistic used to allocate costs (full time personnel) via these tables reflects a more accurate and current allocation statistic. Similarly, Table 6 was used to allocate all costs pertaining to the fiscal director responsible for Vocational Rehabilitation, Disability Determination Services, as well as Child Support accounting. Four dedicated child support fiscal staff reported to the position prior to reassigning the positions in March 2016. The most appropriate and reliable allocation basis will be considered and incorporated into the Department's submission of a revised cost allocation plan.

Condition B

The Department concurs in part.

The Department concurs that the cost allocation adjusting entries for the Adult and Community Services Contract Review Section and Adult Protective Services Section were not performed. The Department has, however, completed a calculation of the actual, final allocation of costs for the audit period, and based thereon, is unable to agree with the Table 2 amounts. For example, our calculations indicate that MAP was undercharged rather than overcharged, as reported by Table 2.

Conditions C and D

The Department concurs.

The department took corrective action and made the necessary correcting entries.

Corrective action for all conditions:*Plan Revision*

The Department is currently in the process of revising the cost allocation plan to take effect on April 1, 2017.

Automated Cost Allocation System

The Department is in the process of implementing software to automate the process of adjusting estimated costs to actual. The implementation of the software has taken longer than anticipated due to the current complexity of the Department's cost allocation plan as well as the volume of transactions that must be processed by the automated system. A successful test of the system was completed on February 15, 2017. The Department expects to have the new system operational by September 2017.

Organizational Structure

The administration of the Department's cost allocation plan and the adjustments to estimated costs were performed in a decentralized manner prior to December 2016. A cost allocation manager position was created in December 2016 to oversee the Department's cost allocation processes. The position's primary responsibilities are to ensure that costs adhere to the cost allocation plan. The position is also responsible for ensuring the cost allocation plan is updated when required. A centralized unit for cost allocation activities will increase accuracy and timeliness of cost allocation entries and provide for greater controls over the cost allocation process in general.

Auditor's Comment**Condition A**

In Management's Comment, the department states that it is a "fact that the approach utilized to create the tables ultimately resulted in costs being distributed to the involved programs in a more equitable manner than would have occurred had the tables been prepared exactly as described in the plan."

Because management did not compile the allocation data needed to allocate costs based on square footage and device counts (or if they compiled it, they did not provide the new data to us), it is not clear how management concluded that adhering to the approved cost allocation plan would result in less equitable allocations.

According to 45 CFR 95.519, costs will be disallowed if a state does not claim costs in accordance with the approved cost allocation plan or fails to submit an amended cost allocation plan. If the department was concerned about the outdated or inaccurate statistics on square footage and device counts, they should have updated the statistics. Otherwise, management should have amended the plan if a different methodology was preferred.

Condition B

We reviewed the department's new calculations (referred to in Management's Comment) and found that the same timing errors identified in Condition B above relative to MAP were repeated in the new calculations, and these timing errors impacted SSBG as well as MAP.

In addition, we noted that the reason the department's new calculations indicated that programs were undercharged resulted from management using a different amount of allocable costs, which changed the allocation results. Because management made all these changes after our audit fieldwork, we were unable to determine whether the new calculations were a more accurate reflection of allocable costs.

Finding Number	2016-016
CFDA Number	10.559, 10.560, 10.561, 84.126, 93.464, 93.558, 93.563, 93.575, 93.596, 93.667, and 93.778
Program Name	Child Nutrition Cluster State Administrative Expenses for Child Nutrition Supplemental Nutrition Assistance Program Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States ACL 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
Federal Award Identification Number	2015IN109945, 201616N109945, 2014IN253345, 2015IN253345, 201616N253345, 2015IS251445, 201616S251445, H126A140063, H126A150063, H126A160063, 90AG0020-01-00, 1601TNSGAT, G1402TNTANF, G1502TNTANF, G1602TNTANF, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1401TNCCDF, G1501TNCCDF, G1601TNCCDF, G1501TNSOSR, 05-1505TN5MAP, and 05-1605TN5MAP
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency – Activities Allowed or Unallowed (93.563) Significant Deficiency – Allowable Costs/Cost Principles (10.559, 10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.778) Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-018
Pass Through Entity	N/A
Questioned Costs	

	Federal Award Identification Number	Amount
CFDA		
10.559	201616N109945	\$297
10.560	2014IN253345	\$135,924
10.560	2015IN253345	\$232,552
10.560	201616N253345	\$250,980
10.561	2015IS251445	\$16,446
10.561	201616S251445	\$12,559
84.126	H126A150063	\$23,370

84.126	H126A160063	\$11,554
93.464	90AG0020-01-00	\$29,722
93.464	1601TNSGAT	\$14,620
93.558	G1402TNTANF	\$18,126
93.558	G1502TNTANF	\$3,081
93.563	HSCHLDSUPPORT15	\$11,249
93.563	HSCHLDSUPPORT16	\$44,609
93.667	G1501TNSOSR	\$13,710
93.778	05-1505TN5MAP	\$20,655
93.778	05-1605TN5MAP	\$18,006

As noted in our prior audit, 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 \$857,460

Background

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 department's method for allocating 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). Federal regulations generally establish detailed documentation requirements for personnel costs charged to federal programs as direct costs. Indirect costs are costs that are incurred for a common or joint purpose benefiting more than one cost objective and that cannot be directly assigned to any specific federal or state programs without undue effort. Generally, the amount of resources needed to be expended to directly assign these indirect costs would be greater than any benefit that would be gained by assigning these costs.

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 at least semi-annually. Employees who work on multiple federal award activities and/or on other state awards and activities (multiple cost objective employees) must prepare personnel activity reports (or equivalent documentation) that meet specified documentation requirements and must prepare this documentation at least monthly, unless a

substitute method is approved by the cognizant federal agency. OMB Circular A-87 was applicable to grants awarded before December 26, 2014.¹⁶

Grants awarded after December 26, 2014, are subject to “Uniform Administrative Guidance,” Title 2, *Code of Federal Regulations* (CFR), Part 200. Specifically, “Compensation – Personnel Services,” 2 CFR 200.430, establishes standards for documenting employee time and effort when personnel expenditures are charged to federal awards as direct costs. Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. Most importantly, the records must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated; encompass both federally assisted and all other activities compensated by the non-federal entity (the department) on an integrated basis; reflect the total activity for which the employee is compensated by the department; and comply with the established accounting policies and practices of the department.

Federal documentation guidelines permit the department to document employee time and effort using physical documentation as well as electronic records, such as information recorded in online timekeeping systems and electronic spreadsheet documents. Regardless of the medium used, the documentation must identify the federal or state programs the employee worked on and the amount of time the employee worked on each program.

While most of the federal programs administered by DHS were subject to either OMB Circular A-87 or the Uniform Administrative Guidance during the audit period of July 1, 2015, through June 30, 2016, the Child Care and Development Fund was not subject to either. For this federal program, specific federal documentation requirements for personnel costs have not been established by the federal grantor. Instead, federal regulations require fiscal control and accounting procedures for this program to be sufficient to permit the tracing of funds (in this case personnel costs) 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 whether fiscal control procedures for personnel costs were sufficient, we selected a sample of 80 personnel cost expenditures, totaling \$12,337, from the population of 2,538,418 personnel cost expenditures, totaling \$194,056,842, that DHS incurred during the audit period and charged to the federal programs listed in Table 1.

¹⁶ The department was required to follow OMB Circular A-87 for the following grants that were included in our testwork: Child and Adult Care Food Program, Summer Food Service Program, Supplemental Nutrition Assistance Program, Disability Insurance/Supplemental Security Income, and Vocational Rehabilitation.

Table 1
Personnel Expenditures for Major Programs Under Audit

Program	Total Transactions Count	Total Expenditures
Child and Adult Care Food Program (CACFP)	3,608	\$292,936
Child Care and Development Fund (CCDF)	337,390	\$18,176,149
Child Support Enforcement (CSE)	171,018	\$12,855,575
Summer Food Service Program for Children (SFSP)	4,729	\$206,836
Supplemental Nutrition Assistance Program (SNAP)	859,032	\$92,044,864
Social Security Disability Insurance (SSDI)	100,630	\$24,079,822
Temporary Assistance for Needy Families (TANF)	817,013	\$20,521,379
Rehabilitation Services – Vocational Rehabilitation Grants to States (VR)	244,998	\$25,879,281
Grand Total	2,538,418	\$194,056,842

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

In the prior audit, we reported that department management failed to ensure that personnel costs were supported by adequate documentation, and that fiscal control procedures for the Child Care and Development Fund (CCDF) and Social Services Block Grant (SSBG) were insufficient. We also reported that Child Support Enforcement (CSE) funds were used for unallowable activities. Department management concurred in part with the prior-year finding and stated, “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.” In this year’s audit, we found that the department has not taken corrective action and that staff still did not ensure that personnel costs were supported by adequate documentation, department management and staff still have not implemented sufficient fiscal control procedures for CCDF and SSBG, and that CSE funds were still used for unallowable activities.

Summary of Conditions

Based on testwork performed, we found that the department’s former Deputy Commissioner of Finance and Administration (Deputy) did not ensure that staff maintained adequate supporting documentation for federal awards (see Condition A). The Deputy also did not ensure charges to the CSE program were for allowable activities (see Condition B), resulting in total questioned costs of \$1,011,663. Federal questioned costs were \$857,640; the remaining \$154,203 were state matching funds.

Condition A. Personnel Costs Were Not Supported by Adequate Documentation

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 6 of 80 personnel cost expenditures tested (7.5%). These 6 errors occurred in 4 federal programs. See Table 2 for a summary of the errors identified in our testwork.

Table 2
Summary of Sample Testwork Errors

Program	Population Total	Dollar Amount of Sample Items Tested	Dollar Amount of Error in Sample	Error Rate in Sample
CSE	\$12,855,575	\$468.37	\$24.63	5.26%
SFSP	\$206,836	\$536.44	\$294.50	54.90%
SNAP	\$92,044,864	\$1,728.54	\$16.34	0.95%
TANF	\$20,521,379	\$237.37	\$0.58	0.24%
Grand Total	\$194,056,842	\$12,337.47	\$336.05	

The issues noted above were due to various errors, including

- failing to prepare timesheets to support personnel costs charged to federal awards;
- charging payroll amounts to the incorrect department ID¹⁷ in Edison;
- failing to allocate a staff member's payroll based on their new work assignment;
- allocating the payroll costs of a group of six employees based on the timesheets of only two of the employees; and
- allocating payroll costs based on arbitrary, predefined percentages¹⁸ in Edison, rather than actual timesheets or other documentation.

In addition to the sample errors noted above, based on our discussion with fiscal staff and our review of records for employees whose time was supported by timesheets, we determined that department staff charged all holiday and leave time to one federal program rather than allocating holiday and leave time across all federal and state programs the employees worked on. Generally, fiscal staff charged each employee's holiday or leave to the employee's main program assignment, even though the monthly timesheet indicated the employee worked on other federal programs during the month. Specifically, we concluded that all non-working hours were charged to the individual's primary work assignment rather than allocated to other federal or state programs. For example, if an employee took two weeks of paid vacation leave, worked one week on CSE and one week on TANF, and CSE was the individual's primary work assignment, DHS fiscal staff would charge three weeks of personnel costs (including all of the paid leave) to CSE and one week of personnel costs to TANF. Based on discussion with fiscal staff, this was DHS' regular accounting practice.

According to Title 2 of the CFR, this accounting practice is not appropriate because 100% of non-working hours should not be charged to one program when the employee works on multiple federal programs. Specifically, 2 CFR 200.405(d) states,

¹⁷ A department ID in Edison, the state's accounting system, is a way to assign expenditures to certain areas or divisions of the department. The department also uses department IDs to determine which methodology or cost allocation table should be used to allocate a cost among the federal programs.

¹⁸ Predefined percentages are "speedcharts" in the Edison accounting system. These are used by state agencies to quickly or automatically allocate expenses to multiple federal programs based on previously defined percentages. These percentages generally do not reflect the proportional benefit received by programs; thus, any expenditures allocated this way need to be adjusted to reflect the actual expenditure allocations for that month.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

2 CFR 200.431(b) states that leave is “allowable if all of the following criteria are met: . . . The costs are equitably allocated to all related activities, including Federal awards.” We concluded that allocating all leave costs to only one benefitting program when an employee works on multiple programs does not result in a reasonable or equitable allocation of leave costs.

Summary of Sample Errors

Even though the sample errors noted in Table 2 above are small dollar errors, when projected to the population and combined with known questioned costs described in the Expanded Testwork section below, the questioned costs for the errors far exceed \$25,000 for each federal program identified in Table 2. 2 CFR 200.516(a)(3), requires us to report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program.

Expanded Testwork

As a result of the errors noted in the original sample testwork, we expanded our work to review all direct personnel costs that were charged to more than one federal award according to the approved cost allocation plan. Based on our expanded review, we found that the former Deputy did not ensure that the personnel costs charged to federal awards were supported by adequate documentation, or 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 generally allocated these payroll costs to federal programs based on certain predefined percentages established in Edison, the state’s accounting system. We questioned \$927,881 for the inadequately supported personnel costs, which includes the \$336.05 identified in our sample testwork mentioned above.

See Table 3 for the total amount of unsupported personnel costs by program. See Table 4 for the total amount of unsupported personnel costs by activity and program.

Table 3
Unsupported Personnel Costs by Program and Funding Source

Program	Federal Expenditures	State Expenditures	Total Expenditures
CCDF	\$ -	\$11,391	\$11,391
CSE	25	-	25
MAP	38,661	38,672	77,333
SAE	619,456	-	619,456
SFSP	297	-	297
AT	44,342	-	44,342
SNAP	29,005	28,989	57,994
SSBG	13,710	-	13,710
TANF	21,207	37,810	59,017
VR	34,924	9,392	44,316
Grand Total:	\$801,627	\$126,254	\$927,881

Source: Expenditure amounts obtained from Edison, the state's accounting system.

SAE - State Administrative Expenses for Child Nutrition.

AT - ACL Assistive Technology.

MAP- Medical Assistance Program (Medicaid).

Table 4
Unsupported Personnel Costs by Description of Employees' Activities and Programs

Activity Description	Program	Expenditures
Adult Protective Services Systems	SSBG	\$13,710
Adult Protective Services Systems	MAP	\$75,734
Child Support Enforcement Information Technology*	CSE	\$13
Citizenship Unit*	TANF	\$1
Office of Learning and Professional Development*	CSE	\$12
Office of Learning and Professional Development*	SNAP	\$16
Families First Child Care	CCDF	\$11,390
Families First Child Care	TANF	\$48,556
Family Assistance Disaster Relief	SNAP	\$57,978
Family Assistance Disaster Relief	TANF	\$10,461
Family Assistance Disaster Relief	MAP	\$1,599
Food Program Administration	SAE	\$619,456
Food Program Administration	SFSP	\$297
TN Technology Access Project Director	VR	\$44,316

TN Technology Access Project Director	AT	\$44,342
Total		\$927,881

* The problems noted for these activities are described in the Original Testwork section above.

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 objective, depending on the job duties of the individuals working on that activity. Based on our testwork, we found that 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. Based on review of the accounting records in Edison, fiscal staff charged the employees' personnel costs to TANF and CCDF; therefore, federal regulations required employees to prepare documentation to support a distribution of costs to TANF and CCDF. Based on discussions with DHS fiscal staff, fiscal staff allocated all salary expenses for this activity to TANF and CCDF based on predefined percentages instead of supporting documentation that identified the amount of time spent on TANF and CCDF.
- Employees assigned to work on the Food Program Administration activity worked on multiple grant awards; however, DHS did not maintain documentation to support any of the employees' personnel costs. In June 2016, these employees began creating timesheets to document the work performed for each program.
- DHS' cost allocation plan required the department to treat the personnel costs for Family Assistance Disaster Relief and Adult Protective Services Systems employees as direct costs and did not permit the department to use random moment time sampling; therefore, federal regulations required DHS to maintain personnel activity reports, timesheets, or other documentation to support personnel costs for these activities. Instead of maintaining documentation to support personnel costs, as required, fiscal staff used the random moment sampling method (a technique used to allocate indirect costs to multiple programs) to allocate personnel costs for all Family Assistance Disaster Relief and Adult Protective Services Systems employees except one. The one employee who did not have their personnel costs allocated with random moment time sampling had their time allocated by completing timesheets that recorded how much time was worked on each federal program each month. Although we requested it, fiscal staff could not provide documentation demonstrating that fiscal staff ever allocated this employee's personnel costs based on the results of their timesheets.
- For the remaining activity, TN Technology Access Project Director, the employees worked on multiple cost objectives, but DHS did not maintain personnel activity reports or other documentation to support allocations of personnel costs charged to federal programs. Fiscal staff stated that this activity was allocated solely based on predefined percentages.

Allocation Issues Involving Timesheets

Because we identified problems with inadequate timesheets in both our original and expanded testwork, we have included this section to elaborate on the concerns related to timesheets. The department used timesheet templates that only allowed employees to document the time worked on certain activities identified on the timesheet template. These standard timesheets generally did not include an area for employees to report the number of hours worked on their primary work activities and did not include an area where employees could add another work activity (instead, the department assumed all time not recorded on the timesheet was spent working on the primary work activity). For example, if an employee worked primarily on CSE and management expected the employee to occasionally work on TANF, the employee's timesheet would simply have a column for TANF. In addition, our expanded testwork also identified the same problem detailed in the Original Testwork section above—the timesheets did not include areas to report time for non-working hours such as leave, holidays, training, and other administrative tasks. Instead, fiscal staff stated that all non-working hours were charged to the cost objective designated as the employee's primary work assignment, even if 49% of their time was spent on a different cost objective. Based on 2 CFR 200.405 and 200.431, this is an inappropriate method of allocating time for leave and other non-working hours. These costs must be allocated to the projects based on the proportional benefit in an equitable fashion. Charging all non-working expenses to an employee's primary program assignment inflates the amounts charged to that program assignment, and undercharges all other programs the employee completed work for.

Risk Assessment

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the department's November 2015 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 "Uniform Administrative Guidance," 2 CFR 200.430(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.

Additionally, according to 2 CFR 200.431(b)(2), the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences, such as for annual leave, sick leave, holidays, and other similar benefits, are only allowable if the costs are equitably allocated to all related activities, including federal awards.

According to 2 CFR 200.405(b), for an indirect cost to be allocable to federal awards, all activities that benefit from the non-federal entity's indirect cost, including unallowable activities and donated services by the non-federal entity or third parties, will receive an appropriate allocation of indirect costs.

According to “Uniform Administrative Guidance,” Title 45, CFR, Part 75, Section 430(i)(5),

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 B, 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 B, 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.

45 CFR 95.517(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 Title 2, CFR, Part 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 Administrative Guidance. Instead, Title 45, CFR, Part 96, Section 30(a) (for SSBG) and 45 CFR 98.67(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.

Cause

During the prior audit, fiscal staff noted 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. According to 45 CFR 95.507(a)(2), the department is required to develop its cost allocation plan according to the accounting principles and standards prescribed by Office of Management and Budget Circular A-87, and other pertinent U.S. Department of Health and Human Services regulations and instructions. Therefore, a cost allocation plan that permits using only predefined percentages to support distributions of personnel costs would result in an invalid plan. Specifically, according to Title 45, CFR, Part 75, 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. OMB Circular A-87, Attachment B, Section (8)(h)(4) includes similar documentation requirements for personnel costs. If the plan was based on arbitrary predefined percentages, the plan would be inconsistent with 45 CFR 75.430 and OMB Circular A-87, Attachment B, Section (8)(h)(4).

Although DHS employees reported their work time in Edison, we concluded that Edison timesheets do not represent adequate documentation to support a distribution of personnel costs to multiple programs. Unlike personnel activity reports or equivalent documentation, Edison timesheets do not identify the amount of time employees spend on each program or activity. For example, if an employee actually spends 3 hours working on Temporary Assistance for Needy Families (TANF) and 7 hours on Vocational Rehabilitation (VR) on December 1, 2016, the employee generally reports his time in Edison to one task profile:

Task Profile ID	Date	Hours
1000023	12/1/2016	10

Edison automatically splits the 10 hours into pre-defined percentages between various funding sources, such as a 50/50 split for TANF and VR. In this example, the employee actually worked hours that were 30/70 rather than the 50/50 split pre-defined by the task profile ID.

Contrast this with an example of documentation that would be sufficient to determine the percentage of costs that should be charged to TANF and VR in the example above, such as:

Program/Activity Name	Date	Hours
TANF	12/1/2016	3
VR	12/1/2016	7

Auditee management has asserted that Edison timesheets represent adequate documentation to support a distribution of personnel costs; however, based on the department's current practices, it is simply not possible for an Edison timesheet alone to provide sufficient information to appropriately allocate costs to different programs.

Questioned Costs

We questioned \$801,627 in federal costs and \$126,254 in state matching funds, for a total of \$927,881 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 former Deputy Commissioner of Finance and Administration did not ensure that charges to the Child Support Enforcement (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.

Criteria

According to Title 45, CFR, Part 304, Section 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. According to the Department Accounting Director, during the audit period, management had not assigned responsibility to the fiscal or budget staff to ensure cost allocations to federal programs were performed in accordance with the department's approved cost allocation plan. After the end of the audit period, these responsibilities were assigned to a member of fiscal management.

Questioned Costs

We questioned \$55,833 of unallowable federal costs charged to the CSE program and \$27,949 in state matching costs, for a total of \$83,782.¹⁹

Effect for Both Conditions

Failure to create and maintain sufficient documentation, and failure to create or follow fiscal controls and accounting procedures for personnel costs charged to federal awards, increases the risk of noncompliance with federal requirements and the possibility that federal agencies will seek to recover disallowed and/or unsupported costs.

¹⁹ To avoid questioning the same costs twice, these questioned costs were reduced by the amount of questioned costs included in Table 4 above related to the Office of Learning and Professional Development.

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.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Summary of All Questioned Costs

Condition	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
Personnel Costs Not Supported by Adequate Documentation (Condition A)	\$801,627	\$126,254	\$927,881
CSE Funds Used for Unallowable Activities (Condition B)	\$55,833	\$27,949	\$83,782
Totals	\$857,460	\$154,203	\$1,011,663

This finding, in conjunction with findings 2016-014, 2016-029, 2016-036, 2016-034, 2016-035, and 2016-015 (which also included federal questioned costs for the federal compliance requirement Allowable Costs/Cost Principles), results in total known federal questioned costs exceeding \$25,000 for a type of compliance requirement for a federal program.

2 CFR 200.516(a)(3) requires us to report known questioned costs that are greater than \$25,000 for a type of compliance requirement for a major program. 2 CFR 200.516(a)(4) requires us to report known questioned costs that are greater than \$25,000 for a federal program which is not audited as a major program.

2 CFR 200.84 defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Department of Human Services' Commissioner 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 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

Condition A: Personnel Costs Were Not Supported by Adequate Documentation

The Department concurs in part.

Staff did not maintain adequate supporting documentation for all personnel expenditures charged to federal awards; and, the department's cost allocation plan was not amended timely. Please see responses to findings 2016-014 and 2016-015.

In regard to the specific costs questioned:

- Personnel costs associated with employees who work on Families First Child Care activities should be charged 100% to TANF. In January 2016 the department implemented the changes needed to result in these costs being charged as such.
- The Food Program Administration activity is ultimately funded through the Child Nutrition State Administrative Expense (CN SAE) and Summer Food Service Program State Administrative Expense (SFSP SAE). Both CN SAE and SFSP SAE are allowable funding sources for the Food Program Administration activity. As noted in the finding, in June 2016 employees assigned to work on this activity began creating timesheets to track time spent on CN SAE and SFSP SAE.
- While the cost allocation plan requires Family Assistance Disaster Relief and Adult Protective Services Systems (APS) personnel costs to be treated as direct charges, the department's practice has been to allocate the majority of these costs using Random Moment Sample (RMS) results. Accordingly, employees were not required to maintain documentation to support the charging of their personnel costs.

Of the APS personnel costs that were not charged using RMS, one of the APS Systems employees worked 100% on the APS system. The other employee worked on the APS system as well as additional programs. This employee completed a timesheet was included on the personnel exceptions list each month. The department provided the auditor supporting documentation showing that the costs associated with this position were allocated based on the results of the timesheet.

- The TN Technology Access Project Director position was vacated in December 2015 and remained vacant until April 2016. Prior to the vacancy, personnel costs were allocated based on a 50/50 split between cost benefiting objectives. The new employee was assigned to a timesheet to complete and personnel costs will be allocated based on splits reflected in the timesheet.

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

The department concurs in part.

The cost allocation plan incorrectly asserts that charges for the Office of Learning and Professional Development (OLPD) are not allowable charges to child support. The Department is in the process of revising the plan. Training is provided by the OLDP to child support employees. Additionally, OLPD has trainers that are solely dedicated to child support training. Administrative oversight costs for supervision of the child support trainers are also incurred by the OLPD. The Department will evaluate the costs identified by the finding to determine which, if any, were not for the direct benefit of child support employees.

Corrective Actions for both conditions:

The problems identified in the finding are a result of an outdated cost allocation plan as well as the underutilization of labor distribution functionality in Edison. The Department is currently in the process of revising the cost allocation plan. The Department expects to submit its first revision to the plan prior to April 1, 2017. In conjunction with the revision of the plan, labor distribution functionality in the general ledger (Edison) will be utilized to provide the ability for employees to report time spent on multiple federal programs within the system rather than using excel timesheets. The use of this functionality will also ensure that benefits are split in the same proportion as the time reported on each benefiting federal program.

Auditor's Comment

Condition A

Regarding Adult Protective Services Systems (APS) personnel costs, although the department did provide timesheets for one employee, the department did not provide documentation showing that fiscal staff allocated the employee's personnel costs based on the results of those timesheets.

In addition, the timesheets for APS would need to demonstrate the amount of time spent on each of the two programs associated with APS – Medical Assistance Program (MAP) and the Social Services Block Grant (SSBG). The timesheets we were provided demonstrated the amount of time spent on APS compared to non-APS activities, but did not identify the amount of time spent on MAP and SSBG. Therefore, the timesheets could not be used for an appropriate allocation of costs to MAP and SSBG.

Condition B

Management's Comment correctly indicates that there are certain Office of Learning and Professional Development (OLPD) training costs that would qualify as the direct cost of short term training related to Child Support and would therefore be allowable per 45 CFR 304.23. We did not question costs that were identified in the department's accounting records as direct costs solely for OLPD Child Support training. Rather, the costs we questioned were accounted for as indirect, general administrative training costs. These costs were allocated to numerous programs, including Child Support, based on average full-time equivalent employees or other indirect methods. As a result, we concluded that the costs were unallowable and we questioned the costs.

Finding Number	2016-017	
CFDA Number	10.558, 10.559, 10.561, 84.126, 93.563, and 96.001	
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Supplemental Nutrition Assistance Program Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States Child Support Enforcement Disability Insurance/Supplemental Security Income Cluster	
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration	
State Agency	Department of Human Services	
Federal Award Identification Number	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, 201616N109945, 2013IS251445, 2014IS251445, 2015IS251445, 201616S251445, H126A100063, H126A120063, H126A130063, H126A140063, H126A150063, H126A160063, HSCHLDSUPPORT15, 8826 04-13-04TNDI00, 8826 04-14-04TNDI00, 8826 04-15-04TNDI00, and 8826 04-16-04TNDI00	
Federal Award Year	2010 through 2016	
Finding Type	Material Weakness – Allowable Costs/Cost Principles (93.563) Significant Deficiency – Cash Management (10.558, 10.559, 10.561, 84.126, 96.001) Noncompliance	
Compliance Requirement	Allowable Costs/Cost Principles Cash Management	
Repeat Finding	2015-016	
Pass-Through Entity	N/A	
Questioned Costs		
	Federal Award	
CFDA	Identification Number	Amount
93.563	HSCHLDSUPPORT15	\$19,696,759

As noted in the prior audit, the Department of Human Services’ fiscal staff still 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 applicable credits, resulting in \$19,696,759 of federal questioned costs

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.

In the prior audit, we found that

- department management did not ensure that program income and refunds were expended prior to requesting additional federal funds;
- the former Fiscal Director improperly recorded Vocational Rehabilitation Grants to States (VR) program income in deferred revenue accounts instead of revenue accounts; and
- the department's Fiscal Directors and Accountants did not ensure that Child Support Enforcement (CSE) expenditures were net of all applicable credits²⁰ and program income.

Department management concurred in part with the prior-year finding and stated, "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 [the State's accounting system] processes to ensure that program income is expended prior to requesting additional federal funds." Based on our current testwork performed, we found that department staff properly recorded VR program income; however, we found that department fiscal staff still did not ensure that program income was expended prior to requesting federal funds and still did not ensure that CSE expenditures were net of all applicable credits.

Condition A - Program Income and Refund Cash Receipts Were Not Disbursed Timely

For the Supplemental Nutrition Assistance Program (SNAP), the Child and Adult Care Food Program (CACFP), the Summer Food Service Program for Children (SFSP), Social Security Disability Insurance (SSDI), and Rehabilitation Services – Vocational Rehabilitation Grants to States (VR), we reviewed all 158 program income and refund cash receipts, totaling \$205,908, that were

1. received during the period July 1, 2015, through September 30, 2015;
2. accounted for in revenue accounts in Edison; and
3. subject to the Grants Management Common Rule.

²⁰ 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.

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
CACFP	\$23,034	37
SFSP	\$1,361	4
SNAP	\$1,752	18
SSDI	\$1,018	14
VR	\$178,743	85
Total	\$205,908	158

Source: Obtained from Edison.

Prior to October 1, 2015, the programs included in our testwork were 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). The Grants Management Common Rule required states to use all program income and refunds collected before drawing down additional federal funds. Effective October 1, 2015, the programs included in our testwork became governed by the Uniform Guidance codified in Title 2, *Code of Federal Regulations* (CFR). While the Uniform Guidance does not include any requirements for states to disburse all program income and refunds collected before drawing down additional federal funds, this new guidance did not become effective for certain major federal programs until the start of the 2016 federal fiscal year, October 1, 2015. Because the scope of our audit was the State of Tennessee's 2016 fiscal year, which was July 1, 2015, through June 30, 2016, our testwork was only performed for program income and refunds received July 1, 2015, through September 30, 2015, for those federal programs that were still subject to the Grants Management Common Rule until September 30, 2015.

We noted that for 108 of the 158 receipts of program income and refunds tested (68%), totaling \$139,663 for the 5 federal programs, DHS's Fiscal Directors and Accountants did not ensure that program income and refunds were expended prior to requesting additional federal funds. Staff expended the program income and refunds from 2 to 24 days (an average of 9 days) after the next request of federal funds.

See Table 2 below for additional details.

Table 2: Receipts (by Program) Expended After Fiscal Staff Requested Additional Federal Funds		
Program	Number of Receipts	Amount
CACFP	16	\$4,212
SFSP	2	\$221
SNAP	17	\$1,714
SSDI	13	\$975
VR	60	\$132,541
Totals	108	\$139,663

Source: Obtained from Edison.

Condition B - Child Support Enforcement Program Income and Applicable Credits Were Not Used to Reduce Federal Expenditures

Federal regulations require DHS to reduce costs charged to the CSE program by the amount of all applicable credits and program income. This means that if the department incurred \$1,000 of expenditures, for example, and collected \$250 of CSE program income, DHS could only request \$750 in federal funds. Program income is any income generated by the department in the course of administering a federal program. Applicable credits are receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the federal award. For CSE, program income and applicable credits include certain child support collections retained by the department (Title IV-A collections, related to Temporary Assistance for Needy Families), interest earned on retained collections, and annual fees paid by child support recipients.

We reviewed all CSE program income and applicable credits transactions recorded based on adjusting journal entries for the fiscal year ended June 30, 2016. Our review disclosed that DHS's Fiscal Directors and Accountants did not ensure that CSE expenditures were net of all applicable credits and program income, as required. Specifically, for 11 applicable credits and program income transactions totaling \$19,696,759, staff did not reduce federal funds requested by the amount of the transactions or return these funds to the federal government. As a result, DHS did not reduce costs charged to CSE by all applicable credits and program income.

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 accounting entries in Edison to reduce federal expenditures, Edison billing records showed that federal funds requests were not reduced for these 11 program income and applicable credit transactions. As of June 30, 2016, the \$19,696,759 was still on hand. Based on discussion with fiscal staff and our review of Edison billing records, after we brought this matter to the attention of management, the funds were returned to the federal government on January 4, 2017.

Criteria

According to paragraph 21(f) of the Grants Management Common Rule,²¹ 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.

Title 2, *CFR*, Part 200, Section 402, mirrors OMB Circular A-87, and states that the total cost of a federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits. Section 406(a) states that applicable credits refer to those receipts or reduction-of-

²¹ The Grants Management Common Rule was codified for the United States Department of Agriculture, the 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; Title 45, CFR, Part 92; Title 20, CFR, Part 437; and Title 34, CFR, Part 80, respectively.

expenditure-type transactions that offset or reduce expense items allocable to the federal award as direct or indirect costs. Section 307(e)(1) states that program income must generally be deducted from total allowable costs to determine the net allowable costs.

Based on Title 45, CFR, 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

The cash receipt system (iNovah) and Edison interface through a batch process that occurs daily. In addition, DHS staff must complete approval processes before receipts are recognized as revenue and drawdown procedures are completed, resulting in delays to spend/use those receipts before making the next request for federal funds. This caused the delays in Condition A, as staff could sometimes not complete the process before the next request for federal funds.

After discussion with management, we learned that the \$19,696,759 in CSE program income and applicable credits was meant to be disbursed, but this process was never actually completed through Edison, the state's accounting system, for program income and applicable credits charged to the federal fiscal year 2015 grant award.

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. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

Since OMB A-87 and 2 CFR 200.402 require costs to be net of all applicable credits to be allowable, and 2 CFR 200.307 requires program income to be deducted from total allowable costs, we questioned costs of \$19,696,759 for CSE due to the department's failure to reduce costs by the amount of applicable credits and program income received (or return the funds to the federal government) as of June 30, 2016. We did not question the costs mentioned in Table 2 of the finding because the funds were expended or used before the end of fiscal year 2016. Subsequent to our audit period and fieldwork, based on our review of Edison billing records, the department resolved the questioned costs by returning the \$19,696,759 to the federal government by reducing the amount of federal funds requested.

Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. Title 2, CFR, Part 200, Section 84, defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Department of Human Services' Commissioner and the Department Accounting Director²² should ensure that program income and refunds are promptly used for allowable purposes upon receipt, and that expenditures for federal awards are net of all applicable credits and program income.

Management's Comment

Condition A

The Department concurs.

The Department revised the process for approving cash receipts in the cash receipting system (iNovah) in December 2015. Cash receipt batches are now approved daily.

Condition B

The Department concurs.

Funds were not returned to the federal government in a timely manner. \$12.3 million of the \$19.6 million was related to journal entries that were not entered properly for fiscal year 2015. The journal entries were to return the federal share of Title IV-A collections. Although not returned timely, the funds were appropriately reported as the Federal Share of Title IV-A Collections on the Office of Child Support Enforcement's (OCSE) 396 quarterly reports. The Department has taken several corrective action steps since the errors occurred. Journal entries related to Title IV-A recoveries were previously completed quarterly. The entries are now completed and reviewed monthly. Internal controls over the process for requesting federal reimbursement for expenditures have also been strengthened. A listing of items to be billed to the federal grantors is reviewed by accountants daily. Draw requests are completed after each accountant responsible for a grant award has approved the draw for their area of responsibility. Additionally, Federal revenues are reconciled to federal expenditures on a monthly basis to ensure that proper amounts have been requested from the federal grantors. Training will be held by June 30, 2017, to reinforce the proper practices for the draw request process.

²² On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Finding Number	2016-018
CFDA Number	10.561 and 93.558
Program Name	Supplemental Nutrition Assistance Program Cluster Temporary Assistance for Needy Families Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	2013IS251445, 2014IS251445, 2015IS251445, 201616S251445, G1202TNTANF, G1302TNTANF, G1402TNTANF, G1502TNTANF, and G1602TNTANF
Federal Award Year	2012 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Cash Management
Repeat Finding	2015-017
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, 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

Background

The Department of Human Services (the department) is responsible for adequate cash management for all of its federal programs. In the cash management process, a state receives either 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 the department uses to draw down funds from the federal government for the state-administered federal programs with large amounts of expenditures. For federal programs with smaller amounts of expenditures, federal-state transfers are governed by Title 31, *Code of Federal Regulations* (CFR), Part 205, Subpart B.

One of the TSA's funding techniques that the department uses to draw down federal funds is known as "Cost Allocation – Actual Costs – Estimated Allocation (Modified)" (Cost Allocation). This technique generally requires the department to use allocation percentages from the prior quarter to calculate an estimate of costs to allocate to the programs. The TSA requires the department to reconcile the allocation estimates to the actual allocation percentages quarterly and to make any necessary adjustments to ensure that costs charged to the programs reflect the 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 March, then the department first estimates that 20% of the April payroll for these employees will be charged to SNAP. Then, once fiscal staff determine the employees' actual time spent on each program during April based on a statistical analysis, fiscal staff adjust the April estimates to reflect the actual time spent on programs during April.

In the prior audit, we found that department management did not ensure that

- prior period allocation percentages were used to calculate the amount of federal drawdowns,
- estimated allocations were adjusted using actual allocation percentages,
- drawdowns were adjusted timely, and
- drawdowns were adjusted according to approved cost allocation tables.

Department management concurred in part with the prior-year finding and stated,

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.

Based on testwork performed, we found that department management ensured drawdowns were adjusted using actual allocation percentages; however, department fiscal staff still did not ensure that prior period allocation percentages were used to calculate the amount of federal drawdowns, did not adjust drawdowns timely, and did not adjust drawdowns according to approved cost allocation tables.

Summary of Condition

We selected a random, nonstatistical sample of 67 expenditure transactions, totaling \$131,009, from a population of 1,150,072 transactions, totaling \$413,235,238, 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), Social Security Disability Insurance (SSDI), Temporary Assistance for Needy Families (TANF), and Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) programs for the audit period July 1, 2015, through June 30, 2016. 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 306,216 SNAP and 292,441 TANF expenditure transactions, totaling \$36,829,874 and \$9,962,646, respectively, for the 10 departmental divisions represented in the sample.

Table 1
Federal Share of Expenditures by Program

Program	Expenditures	Transactions
CACFP	\$ 72,551,849	11,716
CCDF	68,654,786	336,150
CSE	69,205,091	37,349
SFSP	10,216,758	1,878
SNAP	32,184,588	111,551
SSBG	5,166,747	38,948
SSDI	30,586,294	353,595
TANF	86,035,827	120,037
VR	38,633,298	138,848
Total	\$413,235,238	1,150,072

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 fiscal staff did not always

- use the prior period's allocation percentages to calculate the amount of federal funds drawn down (Condition A);
- adjust drawdowns timely (Condition B); and
- adjust drawdowns according to the approved cost allocation tables (Condition C).

Condition A. Prior Period Allocations Were Not Used to Calculate the Amount of Federal Drawdowns

Based on our testwork, we noted that the department's fiscal staff did not draw down federal cash in compliance with the applicable funding techniques specified in the TSA or Subpart B procedures. For all tested TANF and SNAP expenditures to which the Cost Allocation funding technique applied, 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 fiscal staff prepared the cost allocation tables monthly using actual allocation percentages, fiscal staff did not use the correct allocation percentages and continued to use the older (and thus incorrect) allocation percentages for months at a time. Based on the results of our testwork, we expanded our review to include all expenditures for the year for the ten internal departmental divisions that were included in our sample testwork and affected by the errors above.

Using the correct allocation percentages (that is, the prior periods' allocation percentages), we recalculated the estimated amounts that should have been charged to each federal program. Even though only TANF and SNAP were subject to the Cost Allocation funding technique, we recalculated the estimated expenditures for all federal programs, because the amount of cash draws for the other programs were also affected by the department's use of incorrect allocation

percentages. For 9 of 10 divisions, we were able to determine the impact of using the incorrect allocation percentages for the federal programs, which is presented in Table 2.

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	\$ (100,879)	66%	\$ (66,580)
MAP ²³	1,661,105	50%	830,553
SFSP	(3,633)	100%	(3,633)
SNAP	(3,050,147)	50%	(1,525,074)
SSBG	(132,375)	100%	(132,375)
SSDI	7,695	100%	7,695
TANF	1,395,993	50%	697,997
VR	\$ 31,629	79%	24,987
Total			\$ (166,430)

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, which were not based on the correct prior period allocation percentage. 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 federal program, and negative amounts indicate that too little was charged to the federal program.

For the tenth division that was tested, which is for the allocation of state leasing expenditures, we were unable to determine the effect of fiscal staff using incorrect allocation percentages, as the cost allocation tables for the division were created using an inappropriate methodology for the entire year. As a result, we could not rely on these tables to perform calculations. This error is included in Finding 2016-015.

Condition B. Failure to Adjust Drawdowns Timely

Based on our sample testwork, we found that for 5 of 10 TANF expenditures (50%) and 1 of 5 SNAP expenditures (20%) tested for which the Cost Allocation funding technique applied, accountants did not adjust estimated allocations at the end of the quarter as required. The accountants performed the cost allocation adjustments for these expenditures between 18 and 132 days (average of 51 days) after the last day of the month following the end of the quarters in which the expenditures were incurred.

According to the TSA, the cost allocation adjustments should be done “at the end of each quarter”; therefore, the adjustment for March should technically occur on March 31. Because the

²³ MAP, Medical Assistance Program (Medicaid), is a component of the Medicaid Cluster.

cost allocation adjustment process can be relatively time-consuming, performing this cost allocation adjustment on the last day of each quarter did not appear reasonable from an administrative standpoint; therefore, we considered adjustments to have occurred timely if the adjustments occurred within 30 days after the end of each quarter.

Condition C. Failure to Adjust Drawdowns Based on the Approved Cost Allocation Plan

Cost allocation tables define the allocation method fiscal staff use to assign costs to different cost objectives, including federal programs. We found that for 1 of 13 TANF sample expenditures tested (8%) 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 found that staff did not prepare table CR-1 properly to reflect the department's current operations in accordance with the cost allocation plan; therefore, the staff could not use table CR-1 as intended for a valid allocation of costs. See Finding 2016-015 for more details.

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.

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."

Cause for All Conditions

Edison, the state's accounting system, automatically allocates expenditures to various state and federal programs based on speedchart numbers that charge costs to programs based on preset allocation percentages. As such, the percentages assigned to speedchart numbers must be updated quarterly to ensure the department uses the most current allocation percentages. Based on our review of the department's speedchart information, fiscal staff did not ensure speedcharts were updated regularly.

Based on discussion with fiscal staff and management, management had not assigned responsibilities to employees to ensure that cost allocation entries were timely and that cost allocation was achieved in accordance with applicable federal cash management requirements.

Based on discussion with the Department Accounting Director,²⁴ after the end of our audit period, the department hired a director-level position to perform the duties noted above. The department was also testing new software that was expected to allow the department to prepare cost allocation entries more quickly and accurately.

Effect

Failure to draw down federal funds in accordance with the TSA results in noncompliant federal-state transfers and could result in the accrual of interest liabilities for the state due to noncompliance with the TSA.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.

²⁴ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services’ fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner of the Department of Human Services 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 should ensure 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.

Management's Comment

Condition A:

The Department concurs in part.

The Department concurs that estimated allocations used to request federal funds were not adjusted based on the prior period's actual allocations as required by the Treasury State Agreement (TSA); however, these draws were subsequently adjusted using actual allocation percentages. Reference Condition B.

The Department does not concur with the prior period being defined as the prior month or the prior quarter. The TSA Section 6.2.4 description of the *Cost Allocation – Actual Costs – Estimated Allocation (Modified)* funding technique is silent on the specific definition of the prior period. The Treasury State Agreement does incorporate 31 CFR Part 205 by reference. 31 CFR 205.18(a) (3) states:

If costs must be allocated to various programs pursuant to a labor distribution or other system under an approved cost allocation plan, the State will draw down funds to meet cash outlay requirements based on the most recent, certified cost allocations, with subsequent adjustments made pursuant to the actual allocation of costs.

The Department does not certify cost allocations monthly or quarterly. Also, the Table 2 amounts reflect the impact on federal draws when the prior month or prior quarter allocation statistics are used to calculate the estimated allocation statistics. The TSA is a document describing the accepted funding techniques and methods for calculating interest and identifying governed federal assistance programs. The Department therefore believes a more accurate

reflection of the impact of incorrect prior period allocation percentages would be a calculation of the interest incurred. As noted in the finding, SNAP and TANF were the only two administered programs by the Department that were subject to the TSA. The interest obligation for these programs was calculated for state fiscal year 2016 and submitted to the U.S Department of Treasury, as required. The Medical Assistance Program (Medicaid) is administered by the Department of Health Care Finance and Administration (HCFA). Interdepartmental billings to HCFA are based on actual amounts and not estimates. HCFA then requests funds from the federal government; therefore, there was no interest implication for items noted as MAP in Table 2. The net interest obligation due to the federal government from the State of Tennessee for all programs included in the TSA for state fiscal year 2016 was \$1,836.

Per 31 CFR 205.33(b)

(b) Neither a State nor the Federal government will incur an interest liability under this part on the transfer of funds for a Federal assistance program subject to this subpart B.

Therefore, there is no interest penalty associated with the federal programs in the table that are subject to subpart B (CSE, SFSP, SSBG, and SSDI).

Condition B:

The Department concurs.

Estimated cost allocations should be adjusted in a timelier manner.

Condition C:

The Department addresses this condition as part of the response to 2016-015.

Corrective action for all conditions:

Plan Revision

The Department is currently in the process of revising the cost allocation plan. On-site meetings were held with a contractor in February 2017 to begin the process of revising the plan. The Department expects the plan to take effect beginning April 1, 2017. In conjunction with the Department of Finance and Administration, the language in the TSA describing the *Cost Allocation – Actual Costs – Estimated Allocation (Modified)* funding technique will be reviewed for possible revisions to ensure it is unambiguous and auditable as deemed necessary. We expect to complete the evaluation by April 30, 2017. Any necessary revisions will be made to the fiscal year 2018 Treasury State Agreement.

Automated Cost Allocation System

The Department is implementing software to automate the process of adjusting estimated costs to actual. The implementation of the software has taken longer than anticipated due to the current

complexity of the Department's cost allocation plan as well as the volume of transactions that must be processed by the automated system. A successful test of the system was completed in February 2017. The Department expects to have the new system operational by September 2017.

Organizational Structure

The administration of the Department's cost allocation plan and the adjustments to estimated costs were performed in a decentralized manner prior to December 2016. A cost allocation manager position was created in December 2016 to oversee the Department's cost allocation processes. The position's primary responsibilities are to ensure that costs adhere to the cost allocation plan. The position is also responsible for ensuring the cost allocation plan is updated when required. A centralized unit for cost allocation activities will increase accuracy and timeliness of cost allocation entries and provide for greater controls over the cost allocation process in general.

Finding Number	2016-019
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
Federal Award Identification Number	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN0109945, and 201616N109945
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558)
Compliance Requirement	Subrecipient Monitoring Other
Repeat Finding	2015-021
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, 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 pervasive repeated control and compliance deficiencies and substantial 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, who 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. As a pass-through entity of federal funds to subrecipients, DHS is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Condition and Cause

As reported since 2014, 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 once again DHS management did not properly administer the programs by providing adequate oversight and by implementing effective controls (see Table 1). In addition, management continues not to address prior audit findings that we and the federal grantors have cited in prior years, resulting in repeated findings for this audit period.

We reported the same or similar conditions as those reported in the prior audit in 12 of the 15 current audit findings. Management did not concur or concurred in part with the prior audit findings and has not taken sufficient action to obtain reasonable assurance that subrecipients are complying with federal and state regulations. Management stated in some of the prior comments and in our current audit that since the department does not perform the functions that are required at the subrecipient level, the noncompliance is the direct responsibility of the subrecipient and not the department. For other findings, management did not respond at all upon our inquiries of the reasons for the conditions we noted.

Table 1
Summary of CACFP and SFSP New and Repeated Findings

Program	Finding	Finding Number	Questioned Costs
CACFP	New - The Department of Human Services did not perform basic monitoring activities or consider potential fraud risks for one subrecipient	2016-020	\$2,038,237
CACFP	Repeat - For the second year, the Department of Human Services has not established proper internal controls to ensure subrecipient agencies correctly calculated meal reimbursement claims	2016-021	\$179,965
CACFP	Repeat - For the second year, the Department of Human Services did not ensure supporting documentation for meal reimbursement claims was maintained when subrecipients closed	2016-022	\$56,896
CACFP	Repeat - For the third year, the Department of Human Services had inadequate internal controls over subrecipient eligibility determinations	2016-023	\$8,885,895
CACFP	Repeat - For the second year, the Department of Human Services' Child and Adult Care Food Program staff did not document their review of the National Disqualification List	2016-024	\$0
CACFP	Repeat - For the fourth year, 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	2016-025	\$1,085
CACFP	Repeat - For the third year, the Department of Human Services did not ensure sponsoring organizations performed adequate monitoring of their feeding sites	2016-026	\$0

Program	Finding	Finding Number	Questioned Costs
CACFP/SFSP	Repeat - The Department of Human Services has inadequate internal controls over subrecipient monitoring	2016-027	\$0
CACFP/SFSP	New - The Department of Human Services did not always communicate all subaward information to subrecipients as required by federal regulations	2016-028	\$0
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	2016-029	\$26,064
SFSP	New - The Department of Human Services approved and paid reimbursements to a newly established sponsor with ties to a sponsor terminated from the program	2016-030	\$137,099
SFSP	Repeat - For the third year, the Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and documented meals according to established federal regulations	2016-031	\$0
SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not pay Summer Food Service Program cash advances timely according to federal regulations	2016-032	\$0
SFSP	Repeat - As noted in the prior audit, the Department of Human Services program staff did not ensure that sponsors obtained individual eligibility application forms, the forms were complete, sponsors documented the eligibility determination process, and sponsors correctly determined participant eligibility	2016-033	\$26,005
SFSP	New - The Department of Human Services did not ensure that Summer Food Service Program for Children sponsors accurately claimed meals served to children	2016-034	\$696,254
SFSP	Repeat - The Department of Human Services did not comply with federal billing requirements to recoup excess funds	2016-035	\$10,674

Program	Finding	Finding Number	Questioned Costs
CACFP/CCDF	New - As noted in the prior audit, the department has not ensured controls were effective to recover overpayments from child care providers and subrecipients identified by the department's External Program Review	2016-048	\$444*
Total			\$12,058,618

*This finding is related to both the Child Care Development Fund and CACFP programs. Of the total questioned cost amount in Finding 2016-048, \$444 is related to CACFP.

We identified the following as key contributing factors for the numerous new and repeated findings shown in this report:

- management's difference of opinion as to who holds responsibility for identified issues;
- weak preventive internal control processes;
- weak detective internal control processes;
- key management personnel turnover;
- continuous information system design deficiencies; and
- personnel shortages within Audit Services, Internal Audit, and the Office of Program Integrity.

Management's Difference of Opinion as to Who Holds Responsibility for Identified Issues

In the previous two audits, we have emphasized to management the inadequacy of the food programs' oversight and the need for the necessary and robust overhaul of internal controls. However, management's difference of opinion as to who takes direct responsibility for the findings shown in this and previous Single Audit reports continue to be a driving force behind the recurring problems in this area. In response to audit findings reported in the 2015 *Single Audit Report*, management stated that noncompliance at the subrecipient level was the subrecipient's direct responsibility; however, as cited in federal regulations, the pass-through entity (the department) is responsible for developing internal controls to ensure funds are used in accordance with federal regulations. Management's goal to feed children, while admirable, did not include strict adherence to clear federal program requirements to feed eligible children through appropriately vetted subrecipients. Because department leadership did not establish effective internal controls, the department's food program staff were forced to pay the program subrecipients and sponsors first and seek recovery from overpayments due to fraud or errors long after the payments were made. Management's position that noncompliance at the subrecipient level was not the department's responsibility combined with the department's ineffective controls, whether considered individually or in aggregate, continue to result in federal noncompliance, as evidenced by numerous new and repeated findings in our current audit.

Weak Preventive Internal Control Processes

As emphasized and communicated to management in prior years, a key factor to improving the accountability in the food programs is the implementation of an effective internal control system capable of improving operations within the department and at subrecipient levels. While the department has taken steps in implementing some controls, mainly by implementing the Tennessee Information Payment System (TIPS) for SFSP, remaining controls such as establishing effective internal processes; training; sharing knowledge and communication; adapting to changing risks; and identifying and acting upon new priorities continue to be a challenge for the department.

Weak Detective Internal Control Processes

The department's current controls for the subrecipient monitoring review process do not include specific controls to allow monitors to effectively detect or address issues we noted in the food programs. These inadequacies are described as follows.

Inadequate Review Approach

Based on our evaluation of monitoring reports and supporting documentation, as well as discussion with management regarding the monitoring process, the Audit Services section's monitors do not always perform reviews with professional skepticism. Professional skepticism is an attitude that includes having a questioning mind or being alert to red flags or fraud risk indicators that may indicate possible misstatements due to error or fraud. Monitors also do not use enhanced monitoring but instead perform a very limited review. Generally, External Program Review (EPR)²⁵ reviews one meal reimbursement claim, representing one month of the program year, at each subrecipient. EPR staff visits subrecipients for regular monitoring visits once every two or three years, depending on the type of subrecipient. When a serious deficiency is found during a monitoring visit, EPR staff will increase the frequency of monitoring visits to once a year until the serious deficiency has been corrected.

Based on our reviews of the monitoring documents, though department monitors perform monitoring reviews, they do not question unreasonable meal count patterns (e.g., perfect attendance) and photocopied or falsified meal count documentation; instead, they take the subrecipients' meal count forms at face value without further analysis or scrutiny. Through our audit's analytical procedures, however, we were able to identify questionable meal patterns, as evidenced in Findings 2016-021 and 2016-034. We also identified cases of photocopied meal count documentation, as evidenced in Findings 2016-021 and 2016-029, as well as cases of fabricated feeding sites, as evidenced in Finding 2016-020.

²⁵Effective October 1, 2016, External Program Review changed its name to Audit Services.

Inadequate Review Follow-Up Process to Determine the Subrecipients' Timely and Effective Corrective Action

Audit Services' monitors use three types of guides to document their monitoring reviews: 1) Site Review Guide; 2) Sponsor Review Guide; and if applicable 3) Vendor Review Guide. While these guides were designed to identify various subrecipient noncompliance in mostly a check-mark template, monitors do not always scrutinize inconsistent information subrecipients provide. As an example, the Site Review Guide requires the monitor to ask sponsors why they reported lower children participation on meal observation days than on non-observation days. While the monitors document the reason of lower participation during a meal observation day in the guide, we identified instances where justifications for lower participation were unreasonable or did not conform to "common sense" reasoning. We also found instances where monitors performed an incomplete review and did not document and maintain required documentation to answer all review guide questions (see Finding 2016-027).

Pen-and-Paper Review System

Audit Services section uses a pen-and-paper system to document and review monitoring results. In some cases, working papers may consist of hundreds, sometimes even thousands of pages. The present system requires management to heavily rely on manual data input and manual mathematical calculations, which exposes the section to human errors during the review process, as evidenced in Findings 2016-027 and 2016-029. In addition, working papers are moved from one location to another during the review process, which causes the review process to take several months to complete.

Key Management Personnel Turnover

We determined that during our current audit the following key management positions directly responsible for oversight of the administration of the food programs continue to experience turnover:

- Director of CACFP and SFSP (three director changes within the past three years),
- Audit Director 1 (three director changes within the past three years), and
- Inspector General (three changes within the past three years).

Frequent turnover among key leadership positions requires the department to focus its efforts on the often lengthy process to replace these key employees. Without continuity in these positions, management has been unable to develop and maintain consistent critical oversight functions through employees with sufficient food program knowledge and experience.

Continuous Information Systems Design Deficiencies

Tennessee Food Program

For the current audit period, DHS used the Tennessee Food Program (TFP) system to process all CACFP meal claim reimbursements. For SFSP, the department used TFP to process meal claim

reimbursements until the end of the 2015 program (August 2015) but discontinued using TFP and began using the Tennessee Information Payment System for the 2016 program. As noted in the prior finding, TFP includes some of the basic edit checks required by the *Code of Federal Regulations*, 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. We found specifically 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 were inadequate at the feeding site level, the department could not prevent subrecipients from submitting claims that were inaccurate due to errors or fraud. Management plans to use the TIPS system beginning with the 2017 CACFP program year (October 2016).

Tennessee Information Payment System

For the 2016 SFSP (May through September 2016), the department implemented a new integrated system—Tennessee Information Payment System (TIPS)—that replaced TFP and added capabilities that TFP previously did not have, such as processing and reviewing applications for participation and retaining electronic documents. Even after the implementation of TIPS, SFSP issues continue to exist. For example, one of TIPS' capabilities requires sponsors to submit claims for meal reimbursement for individual feeding sites applicable for a claim period, as opposed to sponsors submitting one single meal claim consisting of all sponsors' feeding sites as was required under the TFP. While TIPS edit checks prevent sponsors from overclaims per individual feeding sites, the task of accurately calculating meals and maintaining accurate and complete documentation to support the sponsors' reimbursement claims continues to be an issue for sponsors and the department, as evidenced in Finding 2016-029. Overall, based on our review, the department's implementation of TIPS during our current audit did not prevent

- the department from not providing subaward information to a sponsor, as evidenced in Finding 2016-028;
- the department from approving for the 2016 program a sponsor who did not address a serious deficiency during the 2015 program, as evidenced in Finding 2016-030;
- sponsors from documenting and serving meals in violation of federal guidelines, as evidenced in Finding 2016-031;
- the department from paying cash advances late, as evidenced in Finding 2016-032;
- problems pertaining to individual eligibility at the department and sponsor levels, as evidenced in Finding 2016-033;
- the department from not detecting questionable meal count reporting by sponsors, as evidenced in Finding 2016-034; and
- the department from not collecting excess funds, as evidenced in Finding 2016-035.

The department implemented TIPS for CACFP in October 2016. We will continue to test the effectiveness of the system in both CACFP and SFSP during future Single Audits.

Personnel Shortages Within Audit Services, Internal Audit, and the Office of Program Integrity

In analyzing the sufficiency of departmental oversight responsibility for federal programs, we also determined that the department continued to experience personnel shortages during fiscal year 2016, specifically related to the department's ability to effectively perform monitoring activities. We obtained staffing levels for the Audit Services, Internal Audit, and Program Integrity sections (see Table 2). These three divisions are responsible for investigating fraud, waste, and abuse in the department and in all the federal programs administered by the department. Given the number of food program subrecipients (570 for both programs) and the frequency of required monitoring visits, the staff could not effectively support the department's internal auditing, monitoring, and investigating needs in these three areas for the majority of our audit period.

Table 2
Staffing Levels for Auditors, Monitors, and Investigators

Staffing Levels for Internal Audit (Auditors), Audit Services (Monitors), and Office of Program Integrity (Investigators*) During State Fiscal Year 2016				
	Positions Available	Positions Filled	Positions Vacant	Percent Vacant
As of September 2015				
Auditors	25	10	15	60%
Monitors	22	17	5	23%
Investigators	78	60	18	23%
As of December 2015				
Auditors	26	11	15	58%
Monitors	21	15	6	29%
Investigators	79	66	13	16%
As of March 2016				
Auditors	26	12	14	54%
Monitors	21	16	5	24%
Investigators	71	66	5	7%
As of June 2016				
Auditors	30	16	14	47%
Monitors	22	20	2	9%
Investigators	74	69	5	7%

*The Office of Program Integrity Unit focuses on program investigations through tips submitted via hotlines and other means. This unit does not perform subrecipient monitoring unless there is an investigation into the subrecipient.

Source: DHS Interim Chief of Program Integrity and Finance.

Criteria

According to "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 331, the pass-through entity's monitoring of subrecipients 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 pass-through entity detected through audits, on-site reviews, and other means.

In addition, 2 CFR 200.62 states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity [DHS] designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), Section OV2.14 on management's role 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. Managers' responsibilities vary depending on their functions in the organizational structure.

Section OV3.05 of the Green Book, regarding design and implementation of internal control, also states,

When evaluating design of internal control, management determines if controls individually and in combination with other controls are capable of achieving an objective and addressing related risks. When evaluating implementation, management determines if the control exists and if the entity has placed the control into operation. A control cannot be effectively implemented if it was not effectively designed. A deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.

Section 9.04 of the Green Book, on analysis of and response to change, continues,

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.

Lastly, on management of human capital, Principal 10.03 of the Green Book states,

Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible. Management continually assesses the knowledge, skills, and ability needs of the entity so that the entity is able to obtain a workforce that has the required knowledge, skills, and abilities to achieve organizational goals.

Effect

DHS management has not addressed weaknesses in all functions of the CACFP and SFSP programs noted in the prior findings, which continues to threaten the integrity of the programs. Without the implementation of adequate 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, and
- will continue to jeopardize federal funding because of noncompliance.

Additionally, federal regulations address actions that federal agencies may impose in cases of the department's noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;

- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner of the Department of Human Services should accept responsibility as the pass-through entity as described in federal regulations. The Commissioner should pursue actions afforded to the department as the pass-through agency to ensure subrecipients, and also the department, comply with the federal requirements. The Commissioner and the Director of CACFP and SFSP should ensure that stronger controls addressing all deficiencies in this report are implemented and overpayments to subrecipients are recovered. The Commissioner should analyze and improve control processes affecting the department and its subrecipients to ensure compliance with all federal requirements. If subrecipients continue to be in noncompliance with federal guidelines, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

The Commissioner should assess all significant risks, including the risks noted in this finding and other findings, 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 prompt action if deficiencies occur.

Management's Comment

The Department does not concur that it did not provide adequate oversight and does not have reasonable internal controls in place.

The Department recognizes the possible opportunities for improvement and has identified in its responses where there is concurrence with the State Audit findings. The Department has made improvements throughout the CACFP and SFSP processes and continues to do so. The Department has strengthened the review of the application process, increased monitoring efforts above the federal requirements, and provided enhanced training for auditors, monitors, program staff and sponsors. The Department has invested in external professional development of the auditors and purchased software and hardware upgrades.

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. Tennessee continues to have one of the nation's highest rates of food insecurity. Acknowledging the need to provide for these citizens, the Department must also continually balance the inherent risks associated with participation.

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. 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.

It is important to note that most subrecipients generally strive to provide the services that they have agreed to provide in compliance with the program requirements. The program design and federal requirements present a challenge for even the well-intended and opportunities for error are high. Unfortunately, the program can be vulnerable to those who have ill-intent. The Department is responsible for maintaining effective controls and monitoring efforts, so that appropriate action can be taken in these circumstances. Additionally, it is the responsibility of the Department is to provide subrecipients with proper and effective training and technical assistance.

The Department remains committed to transparency to the citizens and the legislative branch. In addition, the Department will continue to work closely with federal partners and State Audit to improve the administration of the program and mitigate the inherent risks associated with the food programs. 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 provide meals to children in low-income areas in order to support their well-being and create the opportunity for each Tennessee child to reach their full potential.

With regard to questioned costs, it is important to recognize that most issues of non-compliance require corrective actions, rather than disallowance and recoupment. Where there is support for recoupment efforts, the Department will pursue subrecipients accordingly. Where there is

support for stricter enforcement efforts, the Department has and will continue to partner with law enforcement agencies on the local and federal levels. The remedies that are utilized in addressing errors such as meal count inconsistency, incorrect serving times, sponsor monitoring of sites, lack of media press releases, etc. are more opportunities for improvement and compliance that require correction rather than an issue related to questioned costs.

Given the inherent challenges noted in the program, it is unlikely that any review would yield no finding or disallowance. The Department maintains that the finding of issues is not necessarily indicative of lack of internal controls given the program design. Consistently, the Department auditors and monitors find the same issues with subrecipients as identified by State Audit.

Pen-and-Paper Review System

The Department concurs that the Audit Services section uses a pen-and-paper system to document and review monitoring results, and working papers are moved from one location to another during the review process, which causes the review process to take several months to complete.

To mitigate the risks associated with the pen-and-paper system, in the fall of 2016, the Department procured web-based audit software. Training on the audit software was completed in February 2017, and the audit software will be put to use in March 2017.

Tennessee Information Payment System

The Tennessee Information Payment System (TIPS) capabilities significantly reduce errors due to the reliance on the paper application, processing and reviewing applications for participation and retaining electronic documents. Once TIPS compliance and reporting tools are completed, TIPS will provide effective and efficient approval application and reimbursement processes.

Personnel Shortages Within Audit Services, Internal Audit, and the Office of Program Integrity

The Department concurs that during the scope of the current Single Audit that there were several vacancies in the Program Integrity Divisions (Audit Services, Internal Audit, and Investigations and Claims). However, these vacancies were experienced in staff areas that are not responsible for food program monitoring. Food program monitors had 2 vacancies (out of 22) as of the June 2016 audit period. The Department had sufficient staff to complete the required number of monitoring visits to Sponsors and feeding sites. The number of Sponsors and feeding sites monitored in FY16 exceeded the required numbers by more than 15%. The department is reevaluating the personnel needs for these divisions.

Management's Different of Opinion as to Who Holds Responsibility for Identified Issues

The Department recognizes that it has a responsibility to address the identified issues and has improved oversight and program integrity efforts as detailed in the previous responses. As a pass-through entity of federal funds to subrecipients, DHS is responsible for monitoring subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements.

Auditor's Comment

We agree that subsequent to our audit scope (after June 30, 2016) management has taken steps to address the department's and the subrecipients' noncompliance and improve oversight responsibilities. We will continue to advise management on best practices for internal controls and achieving compliance with federal regulations. We will analyze management's actions and the effectiveness of these actions during the next audit.

Finding Number 2016-020
CFDA Number 10.558
Program Name Child and Adult Care Food Program
Federal Agency Department of Agriculture
State Agency Department of Human Services
Federal Award 2015IN109945 and 201616N109945
Identification Number
Federal Award Year 2015 and 2016
Finding Type Material Weakness and Noncompliance
Compliance Activities Allowed or Unallowed
Requirement Allowable Costs/Cost Principles
Subrecipient Monitoring
Repeat Finding N/A
Pass-Through Entity N/A
Questioned Costs

	Federal Award	
CFDA	Identification Number	Amount
10.558	2015IN109945	\$271,476
10.558	201616N109945	\$1,766,761

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 \$2,038,237

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 of Human Services contracts with subrecipients for administration over CACFP and for the delivery of meals to eligible participants. A subrecipient can be either an institution with one feeding site or a sponsoring organization with two or more feeding sites. 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 awards in compliance with federal requirements. Management relies on its External Program Review (EPR)²⁶ to perform monitoring to ensure subrecipients comply with federal program requirements.

Condition and Cause

As we have reported in the prior three audits, we determined the department's EPR staff still has not developed adequately enhanced subrecipient monitoring activities to identify high-risk and/or

²⁶As of October 2016, External Program Review is now known as Audit Services.

fraudulent subrecipients, and therefore was unaware when a new subrecipient to the CACFP program fabricated feeding sites and violated other program requirements.

We specifically found in February 2016 that the department's EPR had failed to monitor one new subrecipient within the first 90 days of operation and had not subsequently performed any monitoring at this subrecipient even though the subrecipient began participating in the program in February 2015. The federal grantor requires the department to monitor new entities within the first 90 days of operation if the entities have been approved to operate more than five feeding sites. Based on our review in February 2016 of the EPR Monitoring tracking spreadsheets, we also found that EPR had not monitored this subrecipient at any time during the subrecipient's participation period. In performing our work, we found that CACFP management reimbursed this subrecipient without conducting the initial required visit or any basic monitoring required. Had EPR staff performed even the basic required monitoring activities, staff would have likely discovered the increased fraudulent risk factors for this subrecipient and should have alerted EPR management and CACFP management and staff to investigate the subrecipient.

Based on our onsite review of subrecipient documentation, we determined several fraud risk factors were present at this nonprofit subrecipient. When this subrecipient began administering feeding sites in February 2015, it initially claimed to operate six feeding sites. At the close of state fiscal year 2016, June 30, 2016, it claimed to have increased its oversight to 75 feeding sites. We reviewed the list of daycare homes (which were identified as feeding sites) provided by the subrecipient's chief executive officer (CEO), and we compared the list to a list of the state's licensed daycare homes. We found that numerous sites the subrecipient had listed as daycare homes were not on the state's list of licensed daycare homes. In addition, we identified that several listed daycare homes appeared to be operated by family members of the CEO. Based on work performed for these feeding sites, we found department staff did not verify the accuracy or existence of 23 feeding site addresses, which ultimately included fabricated daycare homes (feeding sites) as these site addresses were actually apartment buildings and road embankments. We also found that the subrecipient did not have sufficient documentation to meet the regulations for feeding sites. Had EPR staff performed the required monitoring visit, EPR staff might have questioned the legitimacy of the documents and expanded the review.

While all unauthorized costs totaling \$2,198,621 to the subrecipient are questionable, and should be recovered, our current Single Audit period covers July 1, 2015, through June 30, 2016. To fulfill our reporting responsibilities for the questioned costs, we have questioned \$2,038,237 for our 2016 audit period. The remaining questioned costs totaling \$160,384 occurred prior to our scope period ending June 30, 2016, and are questioned for the Single Audit period July 1, 2014, through June 20, 2015.

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 February 1, 2015, through June 30, 2016.

Table 1
Meal Reimbursement Claims for the Period February 1, 2015, Through June 30, 2016

State Fiscal Years		
State Fiscal Year 2015	State Fiscal Year 2016	Total
\$160,384	\$2,038,237	\$2,198,621

The inherently risky design of this federal program (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, errors, fraud, waste, and abuse is heightened by the lack of prevention and detection controls, including monitoring activities designed to search for fraud risk factors. Without these key controls, the department cannot reasonably ensure that its staff or its subrecipients comply with and follow program CACFP guidelines. Furthermore, without the controls to search for and react to red flags and fraud risk factors, EPR and CACFP staff will be less likely to prevent or detect fraud within the program.

Once we found these conditions, we shared the information with our office's Investigations unit. The results of this investigation are available in a separate report.

Risk Assessment

Given the problems identified during our fieldwork, and in prior audit findings, we also reviewed the department's November 2015 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 for fraud risks.

Criteria

Title 7, *Code of Federal Regulations*, Part 226, Section 6(m), set forth by the USDA, states,

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. . . . New institutions that are sponsoring organizations of five or more facilities must be reviewed within the first 90 days of Program operations.

According to Title 7, 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.

The American Institute of Certified Public Accountants' *Government Auditing Standards and Single Audits* for auditors contains guidance for audits conducted in accordance with *Government Auditing Standards, December 2011* (Yellow Book) and Title 2, CFR, Part 200. The department's management could benefit from this guidance by becoming familiar with fraud risks and using the guidance to enhance the subrecipient monitoring process monitoring activities to identify fraud risk factors. Specifically, *Government Auditing Standards and Single Audits*, Section 6.46, states:

. . . risk factors are classified based on the three conditions generally present when material noncompliance due to fraud occurs:

1. Incentives or Pressures
2. Opportunities
3. Attitudes or rationalization

Government Auditing Standards and Single Audits, Table 6-1, Fraud Risk Factors, states:

Incentives or Pressures . . .

- Imminent or anticipated adverse changes in program legislation or regulations that could impair the financial stability or profitability of the entity . . .
- Complex or frequently revised compliance requirements or participant requirements . . .
- Unrealistically aggressive budget or program goals . . .
- A mix of fixed price and cost reimbursable program types that created incentives to shift cost or otherwise manipulate accounting transactions.

Opportunities

- The nature of the entity's operations provide opportunities to engage in fraud . . .
- Rapid growth due to significant increases in funds without the organizational structure to support it . . .
- Inadequate monitoring by management for compliance with policies, laws, and regulations . . .

Attitudes or Rationalizations . . .

- Significant subrecipient or subcontract relationships for which there appears to be no clear programmatic or business justification (for example, a subrecipient providing services it does not appear qualified to provide . . .

Effect

As a pass-through entity for CACFP, the department is responsible for ensuring subrecipients comply with all federal and state requirements. Because the department has not yet addressed weaknesses in critical functions of the CACFP by developing and establishing a robust subrecipient monitoring process to mitigate the high-risk nature of the food programs or to specifically identify high-risk subrecipients, the department will continue to have increased risk of

- not detecting noncompliance or fraud timely;
- making improper reimbursements to subrecipients;
- not collecting overpayments to subrecipients; and
- jeopardizing federal funding because of noncompliance.

As a result, the department reimbursed this subrecipient \$2,198,621 in meal reimbursement claims over the period February 1, 2015, through June 30, 2016, without performing a monitoring visit specifically required by federal requirements. Federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Title 2, CFR, Part 200, Section 207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Also, 2 CFR 200.338 states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as

described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. According to 2 CFR 200.84,

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

We identified questioned costs totaling \$2,038,237 for fiscal year 2016. In addition, we identified questioned costs totaling \$160,384 for fiscal year 2015.

Recommendation

The Commissioner of the Department of Human Services should improve the subrecipient monitoring risk assessment process to include analysis of potential fraud risk factors. Upon detection of fraud risks, the Commissioner and program management should actively respond to the potential risks by enhanced monitoring activities and changes to management's internal control system to further mitigate the risks of subrecipient fraud. 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. In addition, program staff and external program monitors should also ensure that information pertaining to the feeding sites is accurate and complete and most importantly that the sites are legitimate. To prevent the reoccurrence of these issues, 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. If subrecipients continue to submit inaccurate or fraudulent meal reimbursement claims, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management's Comment

The Department concurs in part.

The Department does not concur that the Department's External Program Review (EPR) did not perform basic monitoring activities or consider potential fraud factors (see steps taken below). The Department has over 500 subrecipients participating in the Food Programs (CACFP and SFSP). The subrecipients have over 1800 feeding sites throughout the State of Tennessee that are being monitored in accordance with the Federal and State regulations. While the Department concurs that one subrecipient that was not monitored within the timeframe, the Department maintains that adequate controls are in place to ensure that new CACFP subrecipients are monitored within the 90 days of operation, as per policy.

In accordance with the Office of Management and Budget, Uniform Guidance and the State's Central Procurement Office policy 2013-007, the Department's monitoring process of subrecipients provides reasonable assurance that the monitoring reports issued address whether the subrecipients complied with the applicable Food Programs regulations. The EPR Division monitoring of subrecipients exceed the required numbers by federal and state regulations. In addition, the Department delivers a copy of every Food Program monitoring report to the Comptroller's Office on the day the reports are issued. In 2016, the Department determined fraud risk factors existed at two Food Program subrecipients. These risk factors raised compelling evidence for further investigation; therefore, the Department referred these potential fraud cases to the Comptroller's Office. The Department, in partnership with the Comptroller's Office, made available all necessary documents and staff to assist with the investigation. On February 23, 2016, the Comptroller's Office issued an investigative report on one of those subrecipients.

The Department took the following steps as it related to the subrecipient noted in the finding:

In March 2016, the Food Program management received complaints of fraudulent activities occurring at this subrecipient. The Food Program management referred the complaint to Audit Services for monitoring.

In April 2016, the Department was advised not to pursue administrative activities, including monitoring, while the USDA Office of Inspector General investigated this subrecipient.

In May 2016, the Department of Human Services received a subpoena from the United States District Court to provide all records pertaining to this subrecipient.

In August 2016, the Department received communication from the U.S. Department of Justice that the Department may resume administrative activities deemed appropriate with regard to this subrecipient.

In September 2016, the Department's monitors conducted unannounced site visit to this subrecipient to obtain documentation relative to the food program. At that time, the monitors were informed that the documents were not available because the federal investigators secured all documents, and the main office moved to Knoxville, TN. The monitors went to secure the documents from the Knoxville office, but documents were not available. The Department denied this subrecipient's July 2016 claim for reimbursement.

In November 2016, this subrecipient appealed the denial of the July 2016 claim for reimbursement.

In December 2016, Initial Order was upheld in the denial of the July 2016 claim for reimbursement.

In January 2017, the Department issued a Serious Deficiency to this subrecipient for submitting false documentation as evidenced in the appeal hearing held in November 2016.

In January 2017, the Department submitted a claim with the United States District Court against the Chief Executive Officer of this subrecipient for restitution in the amount of \$2,198,620.93.

To mitigate the risk of fraud of the food programs, the Department established and implemented corrective actions, including but not limited to the following:

- Strengthened internal controls over the approval process of sponsoring organizations applications.
- Utilized Tennessee Information Payment System (TIPS). This system is a web-based case management that modernized the Food Programs application and approval process. TIPS eliminated the need for the massive amount of paper that the sponsoring organizations were required to submit and streamlined the process for applicants' approval, denial, and requests for additional information.
- Procured web-based audit software. This web-based audit software is to provide a real time update to the progress of monitoring and auditing process. The audit software will be in place in March 2017.
- Revised the Food Programs monitoring procedures and guides and added potential fraud factors to the procedures. Requested and received feedback on the monitoring guides from the Comptroller's Office.
- Provided training on 9/26/2016 to all monitors and auditors on the requirements of the *Code of Federal Regulation* pertaining to the food programs and the applicable state laws and regulations. Provided training in February 2017 to monitors and

auditors on the revised guides and working papers including the training on obtaining sufficient appropriate evidence to support the conclusion reached.

- Enhanced communication between Audit Services and Food Program management to obtain weekly update of approved sponsoring organizations and feeding sites.

Auditor's Comment

While we commend management for the steps taken as outlined in Management's Comments, these actions occurred too late to prevent or to detect the fraudulent activity which occurred at this subrecipient. As noted in the finding this subrecipient began operations in February 2015 and the department should have performed the first site visit within the first 90 days of operation (no later than May 2015). We selected this entity for audit in February 2016 and found that as of that date DHS had not performed any monitoring visits for this subrecipient.

Our audit revealed fraud risk factors and in February 2016, we informed the USDA's Office of Inspector General about the potential fraud and they agreed to work with our office on this case. By April, our office and the USDA's Office of Inspector General had sufficient evidence of improper activity and at that point the Office of Inspector General took the lead and coordinated with the district attorney general for the Twentieth Judicial District and the Office of the United States Attorney for the Middle District of Tennessee resulting in the indictment of the subrecipient's Chief Executive Officer.

Finding Number	2016-021
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945 and 201616N109945
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Repeat Finding	2015-022
Pass-Through Entity	N/A
Questioned Costs	

CFDA	Federal Award Identification Number	Amount
10.558	2015IN109945	\$157
10.558	201616N109945	\$179,808

For the second year, 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 \$179,965

Background

The Child and Adult Care Food Program (CACFP) 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 CACFP, 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 DHS 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. 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)²⁷ to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. EPR provides monitoring to approximately 35% of all subrecipients each year. Generally, EPR reviews one meal reimbursement claim, representing one month of the program year, at each subrecipient. EPR staff will visit the subrecipient for a regular monitoring visit once every two or three years, depending on the type of institution. When a serious deficiency is found during a

²⁷ As of October 2016, External Program Review has been renamed Audit Services.

monitoring visit, EPR staff will increase the frequency of monitoring visits to once a year until the serious deficiency has been corrected.

As noted in the prior audit, CACFP staff did not ensure subrecipients maintained accurate supporting documentation for meal reimbursement claims and therefore paid the subrecipients based on inaccurate claims for meal reimbursement. The department's management did not concur with the prior-year finding and stated the following:

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 will ensure monitoring continues to occur with subrecipients to ensure 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 severity of the infraction. This may include recoupment of funds where applicable. . . .

Because monitoring is the department's only control over subrecipients' compliance, we also identified subrecipient monitoring process deficiencies, which we have reported in Overall Management Oversight finding 2016-019. Management is responsible for monitoring subrecipients; however, as noted in finding 2016-019, their monitoring process is not sufficient. We also found other federal noncompliance as described below in this finding.

Condition

We selected 10 CACFP subrecipients from a population of 497 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients. At each of the 60 subrecipients, we haphazardly selected a month during fiscal year 2016 for a total sample of 60 subrecipient claims tested.

Initial Testwork

Based on testwork performed, we noted for 29 of 60 meal reimbursement claims tested (48%), the subrecipients submitted a claim for reimbursement for more meals served than the subrecipient had documentation to support. As a result, the department reimbursed subrecipients based on inaccurate meal reimbursement claims, leading to overpayments to the subrecipients.

High-risk Agencies

Based on our initial testwork results, we determined that the department still has not developed enhanced subrecipient monitoring activities to identify high-risk subrecipients as recommended in our prior audit finding 2015-022; therefore, neither the EPR nor program staff identified fraud risk indicators at Subrecipients 28 and 29, two subrecipients that had not complied with federal

program requirements as a result of errors, fraud, waste, and/or abuse. Because management did not identify the higher risk and follow up accordingly, management continued to reimburse these two subrecipients when fraud risk indicators, as described below, were present.

For Subrecipient 28, we determined the subrecipient's director submitted meal reimbursement claims that indicated that each child had perfect attendance (also known as a block claim) for every month during state fiscal year 2016. In addition, we observed the director falsifying documents to support false claims during our site visit. During a subsequent interview, the director admitted to falsifying meal count records to submit meal reimbursement claims with perfect attendance for state fiscal year 2016. During our testwork, we also determined that EPR did not monitor the subrecipient during state fiscal year 2016 even though the subrecipient submitted meal reimbursement claims with perfect attendance for the entire year, a clear fraud-risk indicator.

For Subrecipient 29, we determined the subrecipient's director submitted meal reimbursement claims that included fraud indicators such as copied meal count forms, perfect attendance on meal reimbursement claims, or questionable attendance. To illustrate, we found the following issues with the meal reimbursement claim supporting documentation:

- meal count forms were photocopied and used as support for multiple reimbursement time periods;
- attendance records showed that feeding sites had children with perfect attendance or the same number of children in attendance daily for a period of a month or greater; and
- feeding site staff faxed the meal count forms to the sponsoring organization prior to the authorized feeding time for the meals.

In summary, based on our review of subrecipient meal reimbursement claims, we found that the EPR monitoring process was inadequate because the monitors did not analyze fraud risk factors, which has continued to result in the department reimbursing subrecipients for inaccurate claims. Also, as noted in prior audits and in the department's own monitoring reports, subrecipients cannot be relied on to submit accurate claims for reimbursement.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2015 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 matched meal reimbursement claims to supporting documentation.

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.

The State of Tennessee CACFP Policies and Procedures Manual defines a block claim as any time the “number of meals claimed for one or more meal types was identical for 15 consecutive days.”

Cause

Based upon discussion with management, the department does not require the subrecipient to provide supporting documentation for each meal reimbursement claim before payment. The department instead relies on EPR to review meal reimbursement claim supporting documentation during monitoring visits. EPR will normally review only a very small sample of claims during a monitoring visit, often one claim for the program year for a subrecipient. We discussed the issues presented within this finding with DHS management; however, the department did not provide any additional information to address subrecipients’ inaccurate claim reporting.

Furthermore, until management accepts responsibility at the department level for program noncompliance which occurs at the subrecipient level, management has not fulfilled the responsibilities as a pass-through entity as described in federal regulations. Management stated in the comments to our prior audit finding that the issues noted in the finding did not represent a compliance issue for the department; however, the issues may represent a compliance issue for the subrecipient.

According to 7 CFR 226.6(a)(5), as part of its pass-through responsibilities, the department agrees to ensure that participating subrecipients effectively operate the program. Also, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, CFR, Part 200, Section 62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements and Federal reports;

- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with:
 - (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
 - (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Given management's interpretation of responsibility for noncompliance, management has not taken necessary action to implement enhanced monitoring activities for subrecipients who present fraud risk indicators. For more causes of the issues discussed in this finding, see Overall Management Oversight finding 2016-019.

We also asked the subrecipients to provide explanation for errors we found. Based on discussion, subrecipients provided the following reasons why they requested meal reimbursement claims that did not match the supporting documentation. See Table 1 below.

Table 1
Reasons Meal Reimbursement Claim-Amount Unsupported

Reasons		Subrecipient
Reason A:	Subrecipients state that the incorrect calculations were caused by human error; the subrecipients also claimed meals in excess of attendance	Subrecipient 4 Subrecipient 6 Subrecipient 7 Subrecipient 10 Subrecipient 11 Subrecipient 14 Subrecipient 18 Subrecipient 21 Subrecipient 24 Subrecipient 25 Subrecipient 26

	Reasons	Subrecipient
Reason B:	Subrecipients state that human error caused the incorrect calculation	Subrecipient 1 Subrecipient 2 Subrecipient 5 Subrecipient 8 Subrecipient 9 Subrecipient 12 Subrecipient 13 Subrecipient 15 Subrecipient 19 Subrecipient 20 Subrecipient 22 Subrecipient 23 Subrecipient 27
Reason C:	Subrecipients claimed meals for unapproved feeding sites	Subrecipient 3
	Subrecipients claimed meals for individuals who did not eat	Subrecipient 16
	Subrecipients claimed meals on days subrecipients did not serve	Subrecipient 17
Reason D:	Subrecipients falsified meal records	Subrecipient 28 Subrecipient 29

Effect

Without preventative controls to determine the accuracy of a subrecipient's claims for meal reimbursement, management must rely on its subrecipients to comply with federal program requirements by spending grant funds as required by federal regulations as well as relying on its only detective control, EPR monitoring efforts, to promptly detect and address noncompliance.

Due to the limitations of EPR's review, EPR activities as currently designed do not sufficiently mitigate the risk of subrecipients submitting incorrect meal claims and the risk of continued noncompliance, errors, fraud, waste, and abuse is increased at both the state and subrecipient levels. Overpayments to subrecipients are a direct violation of federal regulations.

Federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific Conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;

- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. According to 2 CFR 200.84,

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

For the errors noted above, we found that the department overpaid the organizations \$179,965. See Table 2 for details by subrecipient. For the subrecipients in Table 2 below where we do not question costs in this finding, we questioned costs related to those subrecipients in Subrecipient Eligibility finding 2016-023.

Table 2
Summary of Questioned Costs

Subrecipient	Meal Reimbursement Claim-Amount Unsupported	High-Risk Agencies	Total
Subrecipient 1	\$1	-	\$1
Subrecipient 2	-	-	-
Subrecipient 3	-	-	-
Subrecipient 4	-	-	-
Subrecipient 5	-	-	-
Subrecipient 6	-	-	-
Subrecipient 7	-	-	-
Subrecipient 8	-	-	-
Subrecipient 9	\$11	-	\$11
Subrecipient 10	\$25	-	\$25
Subrecipient 11	-	-	-
Subrecipient 12	-	-	-
Subrecipient 13	-	-	-
Subrecipient 14	-	-	-
Subrecipient 15	-	-	-
Subrecipient 16	-	-	-
Subrecipient 17	\$38	-	\$38
Subrecipient 18	\$59	-	\$59
Subrecipient 19	-	-	-
Subrecipient 20	-	-	-
Subrecipient 21	\$21	-	\$21
Subrecipient 22	-	-	-
Subrecipient 23	-	-	-
Subrecipient 24	-	-	-
Subrecipient 25	-	-	-
Subrecipient 26	\$2	-	\$2
Subrecipient 27	\$16	-	\$16
Subrecipient 28	-	\$26,064	\$26,064
Subrecipient 29	-	\$153,728	\$153,728
Total Questioned Costs	\$173	\$179,792	\$179,965

Our testwork included a review of 60 meal reimbursement claims totaling \$1,631,181 from a population of 497 subrecipients' meal reimbursement claims, totaling \$72,360,842, during fiscal year 2016.

Recommendation

As recommended in the prior audit, to reduce the risk of improper payments, the Commissioner should ensure the Director of CACFP and the Summer Food Service Program (SFSP) 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 or there are fraud risk indicators present. To increase the likelihood of detecting overpayments, EPR monitors should expand their monitoring activities to include analytical tools to identify claim errors and fraud risk indicators. 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 corrective actions.

The Commissioner and the Director of CACFP and SFSP should ensure that the department recovers \$179,965 from the subrecipients for the issues noted in the finding.

If subrecipients continue to submit inaccurate or fraudulent meal reimbursement claims, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

The Commissioner and top management 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 and top management 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

The Department concurs in part.

The Department does not concur that preventive controls have not been implemented. During FY 2016, the Department made significant improvements to the CACFP application and reimbursement process through the newly implemented Tennessee Information and Payments System (TIPS). While the Department agrees that additional improvement and enhancement to the newly procured TIPS is needed, TIPS includes edit checks that prevent reimbursement above approved levels. Claims for reimbursement are now entered by the food program subrecipients for each feeding site; thereby, providing greater detail for review and increasing oversight of the reimbursement process. Additionally, food program staff now authorize all claims prior to payment which increased the opportunity to take action on suspicious claims prior to approval.

The Department agrees that insufficient supported meal count documentation to support the subrecipient's claims is an issue of non-compliance and remains an issue that is routinely examined by the Department's monitoring reviews. Also, the Department's External Program Review Section recognizes its role as a key component of program management's internal

control function, through monitoring of Food Program subrecipients compliance with federal and states regulations.

The Department does not concur that its current methods of detecting high risk subrecipients is insufficient and requires additional enhancement through analytical procedures of the subrecipients' claims. The Department's External Program Review Division staff select and monitor subrecipient in accordance with *Title 7 of the Code of Federal regulation Section 226* applicable parts, Public Chapter 798, and based on the following criteria: if the sponsor is new to the program, had a prior year serious deficiency, was not monitored in the last three years, if the provider was referred to External Program Review Division as part of a complaint, or data obtained from TIPS. The Department has provided training to its monitors and auditors to increase vigilance and awareness to instances of suspected fraud, waste, and abuse. Additional training regarding fraud indicators and professional development will continue to be provided to the auditors and monitors.

The Department, as noted in the finding, agrees that 27 of the 29 subrecipients had errors ranging between \$0.00 and \$59.00. The food program management will continue emphasizing through training and technical assistance to the subrecipients the importance of meal count reporting accuracy, to mitigate the claims for reimbursement errors.

The Department's EPR monitors conducted a review of Sponsor 29 in FY 2016, as part of the existing selection methods for Sponsors participating in the Summer Food Service Program. The monitoring report for Sponsor 29 was issued in February 2017, with a **serious deficiency**, including findings but not limited to: the Sponsor did not maintaining accurate records to track program expenses (CACFP and SFSP funds were comingled), failure to obtain budget approvals, unallowable administrative costs, as well as insufficient supporting meal count records. This Sponsor was also selected for monitoring under the CACFP for the FY 2017. The Sponsor 28 CACFP application was approved for FY 2017 has been selected for monitoring.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

The department updated internal controls through the implementation of TIPS after our audit period and thus our results were based on procedures in place during our audit period. We will determine the effectiveness of TIPS controls during our next audit of the department.

Finding Number	2016-022
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945
Identification Number	
Federal Award Year	2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility
Repeat Finding	2015-024
Pass-Through Entity	N/A
Questioned Costs	\$56,896

For the second year, the Department of Human Services did not ensure supporting documentation for meal reimbursement claims was maintained when subrecipients closed, resulting in \$56,896 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 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 and 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.

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).

As noted in the prior audit, CACFP staff either did not ensure closed subrecipients maintained meal reimbursement claim supporting documentation or did not require subrecipients to submit meal reimbursement claim supporting documentation to the department. Department management concurred in part with the prior-year finding and stated they were not responsible for obtaining and maintaining meal reimbursement claim supporting documentation when a subrecipient closes. Instead, management stated that the subrecipient is responsible for making the meal reimbursement claim supporting documentation available upon request.

Contrary to this statement, DHS released a memorandum titled Notice of Closure and Release of Records dated June 3, 2014, that requires subrecipients to notify the department within 30 days of closing and provide the department with copies of all meal reimbursement claim supporting documentation for the previous three fiscal years plus the current fiscal year. As of December 6, 2016, this memo was still available as a CACFP policy memorandum on the department's website. We found noncompliance again in this audit as noted below.

Condition

We selected 10 CACFP subrecipients from a population of 497 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients. At each of the 60 subrecipients, we haphazardly selected a month during state fiscal year 2016 for a total sample of 60 subrecipient claims tested.

In our attempts to perform site visits, we determined that six of the subrecipients closed and left the program without informing the department's program staff. For information on final payment dates and audit visit dates, refer to Table 1 below.

Table 1
Subrecipient Site Information

Subrecipient	Final CACFP Payment	Auditor Visit Date	Difference
Subrecipient 1	March 11, 2016	August 23, 2016	165 days
Subrecipient 2	October 15, 2015	August 4, 2016	294 days
Subrecipient 3	December 11, 2015	August 23, 2016	256 days
Subrecipient 4	August 12, 2015	August 23, 2016	377 days
Subrecipient 5	October 9, 2015	August 8, 2016	304 days
Subrecipient 6	March 3, 2016	September 8, 2016	189 days

Because neither the department nor the subrecipients had the supporting documentation available for our review, we were unable to determine if the subrecipients actually operated during the program year, which includes determining individual eligibility. Therefore, we questioned all amounts paid to the subrecipients during state fiscal year 2016, totaling \$56,896.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2015 Financial Integrity Act Risk Assessment. Despite repeat findings related to this federal program, we determined that management did not ensure that the department's annual risk assessment included mitigating controls to actively search for subrecipients that may have closed or to ensure closed subrecipients retained meal reimbursement claim supporting documentation.

Criteria

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

According to the department's Notice of Closure and Release of Records memorandum dated June 3, 2014,

If for some reason your center should have to close, please make sure that you notify DHS [the department] within 30 days of the last operating day. At that time, DHS will inform you that DHS will need to obtain copies of all records pertaining to CACFP reimbursements for the previous three fiscal years plus the current fiscal year. This would include individual eligibility applications, attendance records, meal counts, receipts, etc. Please review the attached federal regulation. Once you notify DHS of closure, arrangements will be made to obtain the records.

Cause

We discussed the issues presented within this finding with DHS management. Based on this discussion, department management stated that the subrecipient was responsible for informing the department when they close. DHS program staff was not aware the subrecipient had closed and did not have the opportunity to obtain supporting documentation for meal reimbursement claims.

However, we believe it is management's position that it is not responsible for noncompliance at the subrecipient level that has led to this repeat finding. Management stated in the comments to our prior-year finding that it was not the responsibility of the department to obtain and maintain meal reimbursement claim supporting documentation when a subrecipient closes.

According to 7 CFR 226.6(a)(5), as part of its pass-through responsibilities the department agrees to ensure participating subrecipients effectively operate the program. Also, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, CFR, Part 200, Section 62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Given management's interpretation of responsibility for noncompliance, management has not taken necessary action to implement enhanced monitoring activities for subrecipients who present fraud risk indicators. For more causes of the issues discussed in this finding, see the Overall Subrecipient Oversight Finding 2016-019.

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. Furthermore, when the department does not ensure supporting documentation is maintained, the department does not know whether the meal reimbursement claim supporting documentation is correct. Therefore, neither the department nor we were able to determine if the department paid accurate meal reimbursement claims for these entities. In addition, if the department does not obtain and retain the subrecipients' documentation after closure, the department cannot meet federal record retention requirements. Federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific Conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

For the errors noted above, we found that the department overpaid the organizations \$56,896. See Table 2 for details by subrecipient.

Table 2
Summary of Questioned Costs

Subrecipient	Unsupported Meal Reimbursement Claims
Subrecipient 1	\$12,225
Subrecipient 2	\$7,947
Subrecipient 3	\$9,296
Subrecipient 4	\$7,628
Subrecipient 5	\$14,246
Subrecipient 6	\$5,554
Total Questioned Costs	\$56,896

Our testwork included a review of 60 meal reimbursement claims, totaling \$1,631,181, from a population of 497 subrecipients' meal reimbursement claims, totaling \$72,360,842, during state fiscal year 2016. Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. According to 2 CFR 200.84,

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

We recommend the Commissioner ensures that the Director of CACFP and Summer Food Service Program (SFSP) develop a method to actively search for and identify subrecipients that have ceased operating CACFP, such as following up on subrecipients that stop sending reimbursement claims when they previously sent a claim to the department regularly for reimbursement. Given that the CACFP program operates year-round, management should search for subrecipients that have not submitted reimbursement requests consistently as this might be an indication that the subrecipients have closed and failed to inform the department. This quick identification may afford management and staff a better opportunity to obtain supporting documentation from subrecipients who have closed or to make other arrangements as appropriate. If subrecipients continue to close without retaining documentation or providing documentation to the department, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338. The Commissioner and the Director of CACFP and SFSP should ensure that the department recovers all questioned costs noted above.

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

The Department concurs in part.

The Department concurs that documentation of closed subrecipients to support the claims for reimbursement was not obtained.

The auditors' criterion (see below) used for this finding is regarding the subrecipients' responsibilities to maintain the documents to support reimbursement for claims. These documents are subject to the authorized State or Federal official review.

Title 7 of the Code Federal Regulations §226.10 Program payment procedures
(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.

The Department's program management provide training and technical assistance to the food program subrecipients, and inform them of their responsibilities included maintaining documents for claims for meals served. Also, under the Sponsoring Organization Provisions of *Title 7 of the Code of Federal Regulations* §226, applicable parts, it is the responsibility of the subrecipient to collect and maintain all eligibility documentation and to make available that documentation upon request. If upon the Department's officials review, documentation was determined to be insufficient to support participants' eligibility determinations, meals claimed ..., etc., the appropriate corrective actions are required, including recoupment of funds.

The Department does not agree with the questioned cost amount. The Department External program Review monitors conducted monitoring visits to subrecipients 3 and 6 on April 14, 2016 and January 20, 2016, respectively.

The Department's utilization of the newly implemented Tennessee Information Payment System (TIPS) allows food program staff to actively search and identify subrecipients that have ceased operations. In addition, the Department is in the process of working with the federal partners to establish protocol based on CACFP Financial Management Instruction, FNS Instruction 796-2, Revision 4, Section IX D 9(a) that makes available reimbursement for close out costs, thus enabling subrecipients to maintain required documentation after they close and cease participation in the CACFP.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Finding Number	2016-023
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	201616N109945
Identification Number	
Federal Award Year	2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2015-025
Pass-Through Entity	N/A
Questioned Costs	\$8,885,895

For the third year, the Department of Human Services had inadequate internal controls over subrecipient eligibility determinations, resulting in federal questioned costs of \$8,885,895

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 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 2016, program staff reviewed over 400 potential subrecipients.

As noted in the prior two audits, DHS did not have adequate internal controls over subrecipient eligibility determinations. The department's management concurred in part with the finding in the audit for the year ended June 30, 2014 (Finding 2014-026). The department stated:

The Department of Human Services does not agree that proper oversight was not provided. The Department will develop an automated process for obtaining, scanning, and maintaining subrecipient eligibility documentation. The Department will also work to ensure program and external program review staff are effectively trained and continue to be held accountable for their work.

The finding was repeated in the audit for the year ended June 30, 2015 (Finding 2015-025), and DHS management again concurred in part with the finding. Management disagreed that this issue was the department's responsibility, and its response stated:

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.

In response to the prior audit finding, management revised the subrecipient eligibility determination process for federal fiscal year 2016 to now require three levels of review before CACFP staff can approve a subrecipient to operate in the program. However, even after the process was revised, we continued to find issues with the subrecipient eligibility determination process. We found the following noncompliance as described below:

Condition and Criteria

We selected ten CACFP subrecipients from a population of 497 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients. For all 60 subrecipients selected, we reviewed the federal fiscal year 2016 application for participation.

We found various instances where CACFP program staff did not or could not substantiate that the application reviewer verified subrecipient eligibility requirements as detailed specifically in the following conditions.

Condition A: Did Not Allow Subrecipients to State Preference to Receive Commodities or Cash in Lieu of Commodities

Of the 60 subrecipients tested, we determined four were new agencies and 56 were renewing agencies. Based on our testwork, we noted that program staff did not offer commodities to any of four new subrecipients (100%) on their subrecipient applications. Based on discussion with the Director of the Child and Adult Care Food Program and the Summer Food Service Program, the department did not offer commodities to any subrecipient for our audit period.

The USDA Food and Nutrition Services Southeast Regional Office (FNS SERO) staff released a Special Nutrition Programs Management Evaluation (ME) Report on DHS for Federal Fiscal Year 2015 on February 8, 2016, with a similar finding. FNS SERO identified in Finding 1.10 of the ME report that the department is not requiring new institutions to state their preference to receive commodities or cash in lieu of commodities when they apply. The department stated in response to Finding 1.10 that it would be impractical to offer commodities to CACFP intuitions. However, if a state agency determines that it would be impractical to offer commodities to CACFP institutions, it can submit a request to FNS SERO to only offer cash in lieu of commodities to all subrecipients in the program. However, we found the department has not made this request to FNS SERO during our audit period.

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 6(h),

The State agency must require new institutions to state their preference to receive commodities or cash-in-lieu of commodities when they apply, and may periodically inquire as to participating institutions' preference to receive commodities or cash-in-lieu of commodities. . . . Each institution which elects to receive commodities shall have commodities provided to it unless the State agency, after consultation with the State commodity distribution agency, demonstrates to FNS that distribution of commodities to the number of such institutions would be impracticable. The State agency may then, with the concurrence of FNS, provide cash-in-lieu of commodities for all institutions. A State agency request for cash-in-lieu of all commodities shall be submitted to FNS not later than May 1 of the school year preceding the school year for which the request is made.

We did not question costs for the errors noted above because the errors did not negate the subrecipients' eligibility for the program.

Condition B: Board of Directors

Of our sample, we identified that 38 of the 60 subrecipients tested applied as nonprofit organizations; therefore, these subrecipients are required to have an independent and active board. Based on our testwork, we noted that program staff did not obtain and/or maintain required documentation to prove they verified that 22 of 38 nonprofit subrecipients (58%) operated an independent and active board of directors prior to approving the subrecipients to operate in the program. Management could document this requirement in various ways, such as retention of board of director meeting minutes or conflict-of-interest disclosures signed by each member of the board of directors in the subrecipient file. We found the following:

- For 14 of the 22 subrecipients, program staff did not document verification that the board of directors is active.
- For 2 of the 22 subrecipients, program staff did not document verification that the board of directors is independent.
- For 6 of the 22 subrecipients, program staff did not document verification that the board of directors is both independent and active.

The FNS' FFY 2015 Management Evaluation Report identified in Finding 1.6 that the department is not ensuring that institutions have a board of directors that is independent and able to exercise adequate oversight of the program. According to FNS SERO, the department does not require subrecipients to disclose board members' conflicts of interest, does not require evidence the board meets regularly, and does not ensure the board has the authority to hire and fire the subrecipient's executive director.

According to Title 7, CFR, Part 226, Section 2,

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.

Title 7, CFR, Part 226, Sections 6(b)(1)(xviii)(C)(1) (new) and 226.6(b)(2)(vii)(C)(1) (renewing), state that both new and renewing subrecipients must document they meet the following criteria:

Governing board of directors. Has adequate oversight of the Program by an independent governing board of directors as defined at Section § 226.2.

We questioned costs²⁸ totaling \$3,820,280 for these subrecipients because program staff did not maintain evidence the subrecipients met the eligibility requirement to participate as a nonprofit organization.

Condition C: Employing Monitors for Sponsor Monitoring Activities

Within our sample of 60 subrecipients, we identified 18 that applied as sponsoring organizations. As part of the eligibility determination process, program staff must review the sponsoring organization'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 2 of 18 sponsoring organizations (11%) employed monitors to perform feeding site monitoring prior to approving the subrecipient's application. Documentation for one subrecipient listed the monitoring position as vacant, and documentation for the second did not indicate if the subrecipient had monitors.

According to Title 7, CFR, Part 226, Section 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. . . .

We were able to identify \$2,318,061 in questioned costs because program staff did not ensure sponsoring organizations employed monitors. In order to avoid duplication, we reported the \$2,318,061 in questioned costs for these subrecipients below in the media release category only.

²⁸ Since the department approves subrecipient eligibility for the federal fiscal year (October 1 through September 30), any questioned costs mentioned in this finding are for the period October 1, 2015, through June 30, 2016 (the end of state fiscal year 2016).

Condition D: 30-Day Notification of Approval

Based on our testwork, we noted that for 7 of 60 subrecipient applications reviewed (12%), DHS did not notify the subrecipients of the department's approval or disapproval for the subrecipient to operate in the program within 30 days of the department receiving a completed application.

The FNS' FFY 2015 Management Evaluation Report identified in Finding 1.9 that the department did not notify all institutions in writing of its approval or disapproval of the application within 30 calendar days of the department's receipt of a complete application. FNS SERO stated that the department's tracking log, a spreadsheet used to track the status of each CACFP application, was incomplete and did not contain enough information to determine whether the department met the 30-day notification requirement.

Title 7, CFR, Part 226, Section 6(b)(3), states:

State agency notification requirements. Any new or renewing institution applying for participation in the Program must be notified in writing of approval or disapproval by the State agency, within 30 calendar days of the State agency's receipt of a complete application. Whenever possible, State agencies should provide assistance to institutions that have submitted an incomplete application. Any disapproved applicant institution or family day care home must be notified of the reasons for its disapproval and its right to appeal under paragraph (k) or (l), respectively, of this section.

We did not question costs for the errors noted above because the errors did not negate the subrecipients' eligibility for the program.

Condition E: Media Releases

Based on our testwork, we found that for 59 of 60 subrecipients tested (98%), program staff could not provide evidence they verified that subrecipients issued media releases containing all information required by the *Code of Federal Regulations*.

In addition, the department provides subrecipients with a public release template titled Public Release for Child and Adult Care Food Program. Upon review of the template, we noted that it is insufficient to meet the requirements of the *Code of Federal Regulations* unless the subrecipient is an emergency shelter, an at-risk afterschool center, or a day care home. For child care institutions that offer meals on a free, reduced-price, or paid basis, the form does not contain the following:

- the USDA income eligibility guidelines;
- a statement of the availability for free, reduced, or paid meals, as well as including the Secretary of Agriculture's Income Eligibility Guidelines for Free and Reduced-Price Meals; and
- a statement that households who receive Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or Temporary

Assistance for Needy Families (TANF) assistance, or who participate in Head Start are automatically eligible for free meal benefits.

For adult day care centers, the form does not contain a statement that all participants who receive SNAP, FDPIR, SSI, or Medicaid benefits are automatically eligible to receive free meal benefits.

Title 7, CFR, Part 226, Section 6(b)(1)(iii), states the following for new institutions,

Nondiscrimination statement. Institutions must submit their nondiscrimination policy statement and a media release, unless the State agency has issued a Statewide media release on behalf of all institutions;

According to Title 7, CFR, Part 226, Section 6(f)(1)(v), renewing institutions must

Require each institution to issue a media release, unless the State agency has issued a Statewide media release on behalf of all its institutions;

According to Title 7, CFR, Part 226, Section 23(c)(6)(d),

Each institution shall annually provide the information media serving the area from which the institution draws its attendance with a public release, unless the State agency has issued a Statewide media release on behalf of all institutions. All media releases issued by institutions other than emergency shelters, at-risk afterschool care centers, and sponsoring organizations of emergency shelters, at-risk afterschool care centers, or day care homes must include the Secretary's Income Eligibility Guidelines for Free and Reduced-Price Meals. The release issued by all emergency shelters, at-risk afterschool care centers, and sponsoring organizations of emergency shelters, at-risk afterschool care centers, or day care homes, and by other institutions which elect not to charge separately for meals, must announce the availability of meals at no separate charge. The release issued by child care institutions which charge separately for meals shall announce the availability of free and reduced-price meals to children meeting the approved eligibility criteria. The release issued by child care institutions shall also announce that a foster child, or a child who is a member of a household receiving SNAP, FDPIR, or TANF assistance, or a Head Start participant is automatically eligible to receive free meal benefits. The release issued by adult day care centers which charge separately for meals shall announce the availability of free and reduced-price meals to participants meeting the approved eligibility criteria. The release issued by adult day care centers shall also announce that adult participants who are members of SNAP or FDPIR households or who are SSI or Medicaid participants are automatically eligible to receive free meal benefits. All releases shall state that meals are available to all participants without regard to race, color, national origin, sex, age or disability.

We questioned costs totaling \$5,059,019 for these subrecipients because program staff did not ensure subrecipients met the eligibility requirement to issue a media release to inform the public of the services offered by the subrecipient.

Condition F: Department Did Not Verify Institutions' Licenses

Based on our testwork, we noted that for 2 of 60 subrecipient applications tested (3%), program staff did not verify the subrecipient had all required licenses.

Title 7, CFR, Part 226, Section 7(b)(1)(vi), states the following,

Documentation of licensing/approval requirement. All centers and family day care homes must document that they meet program licensing/approval requirements.

We were able to identify \$494,194 in questioned cost because program staff did not ensure subrecipient had all required licenses. We have also questioned costs for these subrecipients in the board of directors issue. In order to avoid duplication, we reported the costs for these subrecipients in the board of directors category only.

Condition G: Missing Subrecipient Budget

Based on our testwork, we noted that program staff did not obtain and review a budget for 1 of 60 subrecipient applications tested (2%) as there was no budget included in the subrecipient file. The budget is used to determine the subrecipient's estimation of need to operate the program.

For new institutions, Title 7, CFR, Part 226, Section 6(b)(1)(v), states,

Budget. An institution must submit a budget that the State agency must review in accordance with §226.7(g);

For renewing institutions, Title 7, CFR, Part 226, Section 6(b)(2)(vii)(A)(3), states,

Budgets. Costs in the renewing institution's budget must be necessary, reasonable, allowable, and appropriately documented;

We were able to identify \$9,941 in questioned costs because program staff did not obtain and review a subrecipient's budget. We have also questioned costs for this subrecipient in the media release issue. In order to avoid duplication, we reported the costs for these subrecipients in the media release category only.

After the end of fieldwork, the department provided documentation for this issue; therefore, we did not audit this documentation. We will follow up on this issue during the department's next single audit.

Condition H: Missing Certification

The department's certification form is required to contain five certifications the subrecipient must sign to acknowledge as true. If these certifications are not signed as true, the subrecipient should not be allowed to participate in the program. These certifications are the following:

1. if the subrecipient or its principals have been convicted of any activity that indicated a lack of business integrity;
2. if the subrecipient is ineligible for other publicly funded programs;
3. a list of publicly funded programs the subrecipient participates in;
4. the name, address, and date of birth of the subrecipient's executive director, chairman of board of directors, or the owner of a for-profit institution; and
5. a certification that all statements are true.

Except for certification 1, all of the other required certifications are presented on a main certification form that is to be completed with the application. Certification 1 is on a separate page in the application packet.

Based on our testwork, we noted for 1 of 60 subrecipient applications tested (2%), program staff did not ensure the main certification form was included in the application packet. Since the main certification form is missing for one subrecipient, the only certification requirement that was satisfied was certification 1.

After the end of fieldwork, the department provided documentation for this issue; therefore, we did not audit this documentation. We will follow up on this issue during the department's next single audit.

In addition, we noted that program staff verified that 5 of 60 subrecipients (8%) certified the application was complete and accurate; however, the subrecipient application did not include complete information. We found the application lacked information such as the name, address, and date of birth for key personnel. Key personnel would include the subrecipient's executive director and chairman of the board of directors or, in the case of a for-profit center that does not have an executive director or is not required to have a board of directors, the owner of the for-profit center. All five subrecipients were allowed to continue to operate in the program. Specifically, we noted the following:

- 1 of the 5 subrecipient applications did not include dates of birth for all key personnel; and
- 4 of the 5 subrecipient applications did not include names, mailing addresses, and dates of birth for all key personnel.

Title 7, CFR, Part 226, Section 6(b)(1)(xiii), states,

Ineligibility for other publicly funded programs—(A) General. A State agency is prohibited from approving an institution's application if, during the past seven years, the institution or any of its principals have been declared ineligible for any other publicly funded program by reason of violating that program's requirements. However, this prohibition does not apply if the institution or the principal has been fully reinstated in, or determined eligible for, that program, including the payment of any debts owed;

(B) *Certification*. Institutions must submit:

- (1) A statement listing the publicly funded programs in which the institution and its principals have participated in the past seven years; and
- (2) A certification that, during the past seven years, neither the institution nor any of its principals have been declared ineligible to participate in any other publicly funded program by reason of violating that program's requirements; or
- (3) In lieu of the certification, documentation that the institution or the principal previously declared ineligible was later fully reinstated in, or determined eligible for, the program, including the payment of any debts owed . . .

In addition, Title 7, CFR, Part 226, Section 6(b)(1)(xiv)(B), states,

Institutions must submit a certification that neither the institution nor any of its principals has been convicted of any activity that occurred during the past seven years and that indicated a lack of business integrity. A lack of business integrity includes fraud, antitrust violations, embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, receiving stolen property, making false claims, obstruction of justice, or any other activity indicating a lack of business integrity as defined by the State agency;

For new institutions, Title 7, CFR, Part 226, Section 6(b)(1)(xv),

Certification of truth of applications and submission of names and addresses. Institutions must submit a certification that all information on the application is true and correct, along with the name, mailing address, and date of birth of the institution's executive director and chairman of the board of directors or, in the case of a for-profit center that does not have an executive director or is not required to have a board of directors, the owner of the for-profit center; . . .

For renewing institutions, Title 7, CFR, Part 226, Section 6(b)(2)(v), states,

Certification of truth of applications and submission of names and addresses. Renewing institutions must submit a certification that all information on the application is true and correct, along with the name, mailing address, and date of birth of the institution's executive director and chairman of the board of directors or, in the case of a for-profit center that does not have an executive director or is not required to have a board of directors, the owner of the for-profit center; . . .

For the missing certification, we questioned costs totaling \$6,596 for this subrecipient because program staff did not ensure a signed certification statement was included in the application.

For the incomplete certifications, we were able to identify \$973,040 in questioned costs for program staff not ensuring a completed certification statement was included in subrecipients' applications. We have also questioned costs for these subrecipients in the board of directors and media release issues. In order to avoid duplication, rather than reporting costs here, we will instead report \$583,392 of these questioned costs in the board of directors issue and \$389,648 in the media release issue.

Condition I: Improperly Classified Subrecipient

We determined that in our sample of 60 subrecipients, 38 subrecipients were classified as a nonprofit organization. The department is required by federal regulation to ensure that the 38 subrecipients have tax exempt status. Based on our testwork, we determined that for one out of 38 subrecipients (3%), program staff incorrectly categorized a subrecipient as a nonprofit without verification of tax-exempt status in the Tennessee Food Program System, the department's information management system.

Title 7, CFR, Part 226, Section 15(a) states,

Tax exempt status. 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.

We did not question costs with this issue because we found the entity was not a nonprofit and therefore was not required to have the tax-exempt status verified by program staff.

Conditions J and K: Improperly Completed Review Worksheets and Improperly Supported Review Worksheets

Background for Conditions J and K: Insufficient Subrecipient Eligibility Review Process

DHS program staff are responsible for performing a review of all applications from subrecipients who wish to participate in the CACFP program. These applications include both new applicants and renewing subrecipients. When assigned an application to review, program staff use the CACFP Application Review Worksheet (an internally developed checklist, the purpose of which is to ensure that the applicant submitted all required documents and meets all 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. The worksheet then undergoes another review by a program staff employee followed by a final review from the Director of CACFP and Summer Food Service Program (SFSP) before the subrecipient can be approved to operate in the program.

As evidenced by the deficiencies noted in Conditions A-I above, while the department has established new procedures to address issues noted in the prior two audits, program staff are not following the newly adopted process properly. As a result, program staff have approved subrecipients to participate in the program without ensuring the subrecipient met all federal subrecipient eligibility requirements.

In addition, as evidenced by management's lack of required documentation in the subrecipients' files, as noted in Conditions A-I, program staff did not always follow the department's established procedures for subrecipient eligibility determinations. Further details are described in Conditions J and K.

Condition J: Improperly Completed Review Worksheets

Based on our testwork, we noted program staff did not properly complete the review worksheet for 15 of 60 subrecipient eligibility applications reviewed (25%). Specifically, we noted the following:

- 5 of the 15 subrecipient application review worksheets did not have all review items completed, indicated by a checkmark or note by program staff;
- 9 of the 15 subrecipient application review worksheets were improperly completed, with errors such as a review items marked "No" without further follow-up performed by program staff before approval; and
- 1 of the 15 subrecipient application review worksheets did not have all review items completed and had review items that were improperly completed.

We did not question costs for the errors noted above because the errors did not negate the subrecipients' eligibility for the program.

Condition K: Improperly Supported Review Worksheets

Based on our testwork, we noted program staff marked review items as yes on the application review worksheets for 52 of 60 subrecipient eligibility applications reviewed (87%) without having appropriate corresponding documentation to support the determination made by program staff. Specifically, we noted the following:

- 9 of the 52 subrecipient application files did not contain documentation of National Disqualified Lists searches for all subrecipients and their principals;
- 16 of the 52 subrecipient application files did not contain media releases; and
- 27 of the 52 subrecipient application files contained neither National Disqualified Lists searches for all agency principals nor media releases.

We did not question costs for the errors noted above because the errors did not negate the subrecipients' eligibility for the program.

Criteria for Conditions J and K: Insufficient Subrecipient Eligibility Review Process

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.*

Condition L: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2015 Financial Integrity Act Risk Assessment. For the third year, 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

We discussed the issues in this finding with management; however, management could not provide a reason to explain why noncompliance continued to occur after management's adoption of a new application approval process.

For the issues noted specifically in Condition E: Media Releases, we found the department relies on subrecipients to fill out the Public Release for Child and Adult Care Food Program form; however, the form does not meet *Code of Federal Regulations* requirements automatically, causing subrecipients' noncompliance with federal regulations. In addition, program staff do not verify that subrecipients properly release the media releases to the public.

According to the Director of the CACFP and the Summer Food Service Program (SFSP), program staff relies on External Program Review²⁹ (EPR) to ensure a media release was actually released to the public. Based on discussion with an EPR Program Monitor 3, EPR monitors do not obtain proof that a media release was made during monitoring visits. EPR monitors rely on program staff to ensure this requirement is satisfied during the subrecipient application process. Due to the confusion of responsibilities for ensuring the media releases are released to the public by the subrecipient after the subrecipient's approval to participate in the program, this requirement has neither been verified by the EPR monitors nor CACFP program staff, leading to noncompliance.

²⁹ As of October 2016, External Program Review has been renamed Audit Services.

Furthermore, we believe it is management's position that it is not responsible for noncompliance at the subrecipient level that has led to this repeat finding. Management stated in the comments to our prior-year finding, the issues noted in the finding were not the responsibility of the department but the responsibility of the subrecipient.

According to Title 7, CFR, Part 226, Section 6(a)(5), as part of its pass-through responsibilities, the department agrees to ensure participating subrecipients effectively operate the program. Also, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, CFR, Part 200, Section 62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Effect

Even though the former Interim Director of Community Services implemented a process that involves one employee performing the eligibility determination, one staff member reviewing the determinations, and one staff member approving the subrecipient's new or renewal application, program management did not ensure staff followed the new process. Management did not ensure that eligibility determinations were based upon documented evidence in accordance with the federal regulations. Without following the established process for subrecipient eligibility determinations, 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. Federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific Conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;

- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We questioned costs totaling \$8,885,895 for the conditions noted above. See a summary of known questioned costs in Table 1 below.

Table 1
Summary of Questioned Costs

Subrecipient	Questioned Costs
Subrecipient 1	\$80,796
Subrecipient 2	\$1,775,618
Subrecipient 3	\$1,998,140
Subrecipient 4	\$981,410
Subrecipient 5	\$4,405
Subrecipient 6	\$619,371
Subrecipient 7	\$265,125
Subrecipient 8	\$687,796

Subrecipient 9	\$36,064
Subrecipient 10	\$58,693
Subrecipient 11	\$36,395
Subrecipient 12	\$69,727
Subrecipient 13	\$13,355
Subrecipient 14	\$36,796
Subrecipient 15	\$50,529
Subrecipient 16	\$9,941
Subrecipient 17	\$51,199
Subrecipient 18	\$16,861
Subrecipient 19	\$9,208
Subrecipient 20	\$272,174
Subrecipient 21	\$1,309
Subrecipient 22	\$46,623
Subrecipient 23	\$55,296
Subrecipient 24	\$12,915
Subrecipient 25	\$96,098
Subrecipient 26	\$39,477
Subrecipient 27	\$21,486
Subrecipient 28	\$46,704
Subrecipient 29	\$313,862
Subrecipient 30	\$28,360
Subrecipient 31	\$5,502
Subrecipient 32	\$25,870
Subrecipient 33	\$180,332
Subrecipient 34	\$215,911
Subrecipient 35	\$319,921
Subrecipient 36	\$22,428
Subrecipient 37	\$36,392
Subrecipient 38	\$3,187
Subrecipient 39	\$21,909
Subrecipient 40	\$19,530
Subrecipient 41	\$10,465
Subrecipient 42	\$13,918
Subrecipient 43	\$6,596
Subrecipient 44	\$13,469
Subrecipient 45	\$15,002
Subrecipient 46	\$51,261
Subrecipient 47	\$31,123
Subrecipient 48	\$14,011
Subrecipient 49	\$17,841
Subrecipient 50	\$28,661
Subrecipient 51	\$25,686
Subrecipient 52	\$3,840
Subrecipient 53	\$7,643

Subrecipient 54	\$20,048
Subrecipient 55	\$21,548
Subrecipient 56	\$18,068
Total	\$8,885,895

Our testwork included a review of 60 CACFP subrecipients that received meal reimbursement claims totaling \$11,922,024 for the period from October 1, 2015, through June 30, 2016 (from the month of approval through the state fiscal year-end) from a population of 497 subrecipients whose meal reimbursement claims totaled \$53,184,881 for the same period. Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. According to 2 CFR 200.84,

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

FNS SERO stated in the *Special Nutrition Programs Management Evaluation Report* the department is required to offer new institutions the option of commodities or cash in lieu of commodities when they apply, ensure institutions have a board of directors that is independent and able to exercise oversight of the program, and notify all institutions in writing of its approval or disapproval of the application within 30 calendar days of the department's receipt of a complete application. FNS SERO issued required corrective action plans for each finding, and we recommend that the department follow these corrective action plans. Specifically, FNS SERO requires:

Offering Cash-In Lieu of Commodities

The SA [State Agency] must require new institutions to state their preference to receive cash or cash-in-lieu of commodities when they apply for participation in the CACFP. The SA must, by June 1 of each year, submit a list of institutions which have elected to receive commodities to the State commodity distribution agency, unless FNS has approved a request for cash-in-lieu of commodities for all institutions. . . . If in consultation with the State commodity distribution agency, the SA determines that distribution of commodities would be impracticable, the SA must submit a request to provide cash-in-lieu of all commodities to FNS-SERO not later than May 1 of the school year preceding the school year for which the request

is made. The SA must develop internal procedures to ensure that it is in compliance with the commodity distribution requirements of 7 CFR 226.6(h). . . .

Board of Directors

The SA [State Agency] must require new institutions to disclose whether any members of the board of directors are also SO [sponsoring organization] officials or family members of the SO's officials. The SA must require institutions to submit evidence that the governing board meets regularly and has the authority to hire and fire the institution's executive director. The SA must require returning institutions to disclose this information during the annual renewal process. In subsequent years, renewing institutions may certify that no changes have occurred in their governing board of directors during their annual certification for renewal, or submit any changes as they are made. . . .

30 Day Notification of Approval

The SA [State Agency] must develop policies and procedures to ensure that written notifications of application approvals or disapprovals are issued within 30 calendar days of receipt of a complete application. The SA must provide the FNS-SERO with a copy of all policies and procedures, including timeframes for implementation; a list of training dates for the SA staff on the new policies and procedures; and a statement documenting that the SA attests to the implementation of each of these actions. . . .

The Commissioner and the Director of CACFP and SFSP should promptly implement FNS SERO's required corrective actions, accept responsibility as a pass-through entity and ensure sufficient controls are in place, and ensure corrective action is taken at all levels. Also, the Director of CACFP and SFSP 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 Director of CACFP and SFSP makes these corrections to the application process.

In regard to media releases, the Commissioner and the Director of CACFP and SFSP should consider issuing a statewide public media release on behalf of all institutions. Issuing a statewide media release would remove the department's requirement of ensuring every subrecipient issued a media release and would put the department in direct control of meeting the requirement. If management does not choose to issue a statewide media release, the Director of CACFP and SFSP and the Commissioner should update the Public Release for Child and Adult Care Food Program form to meet the federal requirements for all types of institutions and ensure that program staff follow up with approved institutions to verify that a media release was properly made.

In addition, management should reassess its risk assessment to ensure controls are properly designed in order to mitigate all risks related to the issues noted and should document the mitigating controls in management's risk assessment.

Management's Comment

The Department concurs in part.

The Department does not concur with the questioned costs noted in the finding. The Department addressed the questioned costs in its response for each condition below.

The Department agrees that deficiencies did exist with the paper based application process the auditors examined as part of the CACFP 2016 federal program year. For CACFP 2017 federal program year subrecipient applicants, the Department has implemented an electronic case management system called the Tennessee Information Payment System (TIPS). The implementation of this system has dramatically reduced the risks to for non-compliance with eligibility requirements noted in the finding.

The Department agrees that additional training and technical assistance to the subrecipients is needed to further mitigate the risk of error in completing the CACFP applications. The food program management will continue providing the training to the subrecipients through in-person or online training.

Condition A

The Department did not allow subrecipients to state preference to receive commodities or cash in lieu of commodities; however, as also noted, the errors did not negate the subrecipients' eligibility for the program. As this issue is not an eligibility determinate, the Department does not agree with the finding as written.

The Department has begun with the corrective action for this issue by utilizing TIPS which requires new subrecipient applicants for CACFP 2017 federal program year to note their preference to receive commodities or cash-in-lieu of commodities as part of the application. In addition, this systematic internal control was implemented and accepted as part of the corrective action process by the United States Department of Agriculture's Food Nutrition Service, Southeast Regional Office (FNS-SERO) to the FFY 15 Management Evaluation Report.

Condition B

The Department does not concur with the questioned costs of \$3,820,280 relative to the Department maintaining of subrecipients' board of directors meeting minutes or conflict-of-interest disclosures signed by each member of the board of directors. The subrecipients are required to maintain all relevant documents to the board of directors on file and be available to the Department officials for inspection upon request.

The food program management requested from the subrecipients and obtained board of directors' minutes for all 22 subrecipients noted in the finding.

TIPS requires new and returning subrecipient applicants for CACFP to submit information on the board of directors and disclose if any members of the board of directors are also sponsoring organization officials or family members of the sponsoring organization officials as part of the

Viability, Capability and Accountability (VCA) Checklist. TIPS also requires CACFP subrecipient applicants to certify that their governing board meets regularly and has the authority to hire and fire the institution's executive director. The subrecipient board minutes, by-laws, and other documents are required to be available upon the Department officials' request.

Condition C

The Department does not concur with the questioned costs of \$2,318,061. The two subrecipients identified in this issue are County Governments in west Tennessee participating in the food program. Both of those subrecipients were monitored by the Department's External Program Review (EPR) personnel. The EPR monitoring reports included findings to the effect that the subrecipients did not conduct monitoring as required. Both subrecipients were to submit, to the food program management, corrective action plans to address the deficiencies noted the monitoring reports.

TIPS requires new and returning subrecipient applicants for CACFP 2017 to complete a management plan that outline the requirements of monitoring. Subrecipients must certify that they have a monitoring plan in place and that they are employing the appropriate staff to meet the monitoring standards.

Condition D

The Department concurs that the subrecipients identified did not receive notification of approval or disapproval within 30 days of application.

The Department's CACFP program management has developed and implemented policies and procedures that provide written notification of CACFP application approvals or disapprovals within 30 calendar days of receipt of a complete application. Food program staff training on this policy was conducted on July 21, 2016.

Condition E

The Department does not concur with the questioned costs of \$5,059,019 relative to the subrecipients media release (see footnote below) because it is not an eligibility determinate. 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.

As noted in the finding, this issue is not an eligibility issue. The Public Release for Child and Adult Care Food Program Form was provided to FNS-SERO as part of the Management Evaluation and was not found deficient.

The Department will evaluate the feasibility of issuing a statewide public media release on behalf of all subrecipients.

Conditions F-K

The Department concurs that internal controls need to be strengthened to ensure that the CACFP application process including required documents is complete. The implementation of TIPS addresses the internal control deficiencies as noted in Conditions F-K.

The Department does not concur that costs should be questioned due to a budget document of one subrecipients being not available during the auditors review that was provided to the auditors subsequently; the certification of one subrecipient that was provided to the auditors subsequently; and incomplete application due to not documenting date of birth, name, and address of some of the subrecipients' personnel.

Condition L

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Footnote: The auditors' statement in the finding under Conditions J and K states, "... 16 of the 52 subrecipient application files did not contain media releases; and ...". "We [the auditors] did not question costs for the errors noted above because the errors did not negate the subrecipients' eligibility for the program."

Auditor's Comment

The department's management obtained eligibility documentation after we brought the deficiencies to their attention. While the department was able to obtain this eligibility documentation after the fact, management should have obtained the documentation during the subrecipient eligibility determination process and prior to approving the subrecipient to participate in the CACFP.

To clarify our rationale for not questioning certain costs, if we were able to determine that the documentation that management provided to us after the fact had probably existed at the time of the eligibility determination review (even though not reviewed by management as required), we did not question costs as a documentation issue. When management could not provide any documents or the documentation was clearly inadequate during the time of our audit fieldwork, we questioned the costs.

Finding Number	2016-024
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, and 201616N109945
Federal Award Year	2011 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2015-027
Pass-Through Entity	N/A
Questioned Costs	N/A

For the second year, 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 documentation³⁰ to the department for approval. Subrecipients or any of their principals who have violated program requirements and have been terminated and technically barred from the program are placed on the National Disqualified List (NDL). Department management designed their internal control structure to require program staff to verify and document during the subrecipient application process that neither the subrecipient nor any principals appear on the NDL. As part of the subrecipient application process, program staff are to record their verification on the department’s subrecipient application review guide and include a printout of the NDL searches in the subrecipient file.

As noted in the prior audit, CACFP staff did not maintain evidence of their verification that subrecipients or their principals were not on the NDL. Department management did not concur with the prior-year finding and stated that CACFP staff verify subrecipients are not on the NDL; however, federal regulations do not require the department to maintain documentation of this verification. During our review of the subrecipient eligibility applications, we noted that the department had begun to maintain documentation of NDL verification checks for subrecipients and their principals. However, we still found instances of noncompliance as described below.

³⁰ For example, the subrecipient’s budget.

Condition

We selected 10 CACFP subrecipients from a population of 497 based upon high-risk factors identified in previous audits and total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients 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 38 of 60 subrecipients and all of their principals (63%) were not on the NDL. We found the following:

- program staff did not verify all members of the board of directors for 32 of the 38 subrecipients;
- program staff did not verify a director or other key personnel for 4 of the 38 subrecipients; and
- for 2 of the 38 subrecipients, program staff did not perform any NDL searches for the subrecipient or its principal when the subrecipient was a school system.

Our testwork showed that program staff approved all these applications even though the department had no evidence that program staff performed verification of all the subrecipients' and all of their principals' NDL status. Because we could not determine from the department's files that program staff searched the NDL, we confirmed that none of the subrecipients or their principals 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, even though CACFP staff could not provide evidence of this at the time of the application approval.

The USDA Food and Nutrition Services Southeast Regional Office (FNS SERO) staff released a Special Nutrition Programs Management Evaluation Report for federal fiscal year 2015 on February 8, 2016, for DHS. FNS SERO identified in Finding 1.1 of this report that the department failed to terminate subrecipients from the program even though the subrecipients were on the NDL because staff did not check the NDL, as required by departmental policy, and staff did not retain documentation as evidence that this review had been performed before the application was approved. Furthermore, FNS SERO specifically identified subrecipients' applications in which the department could not provide documentation, such as a screenshot of NDL searches, that CACFP staff verified the subrecipients' and all of their principals' NDL status.

Risk Assessment

Given the problems identified in the FNS Evaluation Report and in our prior and current audit fieldwork, we also reviewed the department's November 2015 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)(xii), 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 an application, the State agency may not approve the application.

According to 7 CFR 226.6(b)(2)(ii), 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.

According to 7 CFR 226.2,

Principal means any individual who holds a management position within, or is an officer of, an institution or a sponsored center, including all members of the institution's board of directors or the sponsored center's board of directors.

Cause

In the prior-year finding, we noted that the department did not maintain evidence that program staff had checked the NDL before approving a subrecipient's application. Based upon the response to that finding, department staff stated that federal regulations did not require program staff to maintain evidence of NDL verification. Per the FNS Evaluation Report, FNS also noted that the department could not provide evidence that program staff had verified the NDL before approving a subrecipient's application.

When we discussed the errors with management, including the Director of CACFP and the Summer Food Service Program (SFSP), they could not provide a reason why subrecipients had been approved without evidence of a NDL search for all subrecipients and principals.

Effect

As indicated in the FNS Evaluation Report and in our prior and current audit fieldwork, management continues to not comply with federal regulations. Without adequately implementing 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 reimburse organizations that are ineligible to participate in the program, as found in the FNS Evaluation Report. Contracting with disqualified subrecipients or principals is a direct violation of federal regulations.

Federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific Conditions:”

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

FNS SERO stated in the Special Nutrition Programs Management Evaluation Report that the department is required to determine whether any other institutions and/or principals that have participated in the CACFP as of fiscal year 2014 and later are on the NDL as part of their required corrective action. Therefore, the Commissioner should ensure that the Director of

CACFP and SFSP ensures all subrecipients and/or principals operating as of fiscal year 2014 and later have been tested for exclusion from the NDL and documentation of this is maintained in the subrecipient files, as required by FNS SERO. The Commissioner should also ensure that the Director of CACFP and SFSP implements adequate procedures to ensure program staff will verify and document 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

The Department concurs in part.

The Department agrees that issues referenced in the finding were part of Finding 1.1 of the FFY 15 United States Department of Agriculture, Food Nutrition Service, Southeast Regional Office's (FNS-SERO) Management Evaluation (ME) Report. The Department also agrees that no individuals were identified by the state auditors as appearing on the NDL.

The Department does not concur that the finding is further supported by the findings of FNS-SERO ME. The finding has been closed by FNS-SERO without requiring NDL documentation be maintained in the subrecipient files. Additionally, this finding was closed without requiring all members of the board of directors to be checked for the NDL, only the responsible parties and individuals.

The Department agrees for the need to strengthen its internal controls, even though it's not required as part of the FNS-SERO ME corrective action process by expanding its NDL checks to include all members of the subrecipient's board of directors.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

This federal requirement is an on-going process for all new and renewing subrecipients. Until the federal grantor changes or removes this requirement, we will continue to audit management's compliance with NDL requirements. Without documentation, we cannot determine the department's compliance.

Finding Number	2016-025
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945 and 201616N109945
Identification Number	
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility Subrecipient Monitoring
Repeat Finding	2015-023
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.558	2015IN109945	\$929
10.558	201616N109945	\$156

For the fourth year, 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 \$1,085 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)³¹ section 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

³¹ As of October 2016, External Program Review is now known as Audit Services.

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 eligibility addendum when and what meals a participant will eat while at the feeding site.

As noted in the prior three audits, the department did not ensure that subrecipients determined and properly documented individual eligibility for participants. The department's management concurred in part with the finding in the audit for the year ended June 30, 2013 (Finding 2013-018). The department stated:

We concur in part because when the Department conducted our monitoring visit as required by Federal regulation, the applications were present.

Department management concurred in part with the finding in the audit for the year ended June 30, 2014 (Finding 2014-025), stating, "The Department of Human Services does not agree that proper oversight was not provided." Department management also did not concur with the finding in the audit for the year ended June 30, 2015 (Finding 2015-023). They stated:

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's 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 the Overall Subrecipient Oversight Finding 2016-019.

Condition and Criteria

We selected 10 CACFP subrecipients from a population of 497 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we

selected a nonstatistical, random sample of 50 subrecipients. At each of the 60 subrecipients, we reviewed a meal reimbursement claim for a total sample of 60 subrecipient claims tested. To select these claims, we haphazardly selected a month during fiscal year 2016. For each meal reimbursement claim in our sample of 60, we haphazardly selected 10 eligibility applications related to the claim. We tested the eligibility applications to ensure the subrecipients correctly determined participants' eligibility and claimed the correct amount for meals served to participants as defined by federal regulations.

Within our sample of 60 claims, we identified 46 claims that were related to independent child or adult care centers and sponsors of child or adult care centers, which were required to maintain eligibility applications. The remaining 14 claims were related to at-risk afterschool programs, sponsors of homes, and emergency shelters that were not required to maintain eligibility applications. For eligibility addendums, within our sample of 60 claims, we identified 43 claims that were required to maintain eligibility addendums related to independent child care centers and sponsors of child care centers. The remaining 17 claims were related to at-risk afterschool programs, sponsors of homes, independent adult care centers, sponsors of adult care centers, outside-school-hours care centers and emergency shelters that were not required to maintain eligibility 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.

Condition A: Participants Were Not Eligible for Services

From our sample of 60 subrecipients, we identified 2 adult care providers and 58 child care providers. Based on our testwork, we found that 2 of the 58 child care providers (3%) claimed to feed children who did not meet the program's definition of a child.

Title 7, *Code of Federal Regulations* (CFR), Section 226, Part 2, defines a child participant for the CACFP program as

- (a) Persons age 12 and under;
- (b) Persons age 15 and under who are children of migrant workers;
- (c) *Persons with disabilities* as defined in this section;
- (d) For emergency shelters, persons age 18 and under; and
- (e) For at-risk afterschool care centers, persons age 18 and under at the start of the school year.

Children age 13 and older do not qualify for the program and are not allowable for reimbursement. We were able to identify questioned costs of \$87 for Subrecipient 30 and \$3 for Subrecipient 60. In order to avoid duplication, the costs for Subrecipient 30 were questioned in Condition E below. See Table 1 for the questioned costs for Subrecipient 60.

Condition B: Subrecipient Did Not Maintain Eligibility Applications

Based on testwork performed, we noted that for 5 of 46 subrecipients tested (11%) the subrecipients did not maintain eligibility applications for 11 participants tested (Subrecipients 14, 20, 35, 43, and 55).

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 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. We were able to identify \$599 in questioned costs for Subrecipients 14, 20, 35, and 55. In order to avoid duplication, we included these costs below in Condition E. Subrecipient 43 has questioned costs of \$46 related to this condition. See Table 1 for questioned costs.

Condition C: Subrecipients Did Not Maintain Properly Completed Eligibility Applications

Based on testwork performed on the 46 subrecipients, we found the following:

- 33³² of 46 subrecipients (72%) did not document on the eligibility application the method of participant eligibility (categorical or income); and
- 16³³ of 46 subrecipients (35%) did not document or incorrectly determined on the eligibility application whether the participant qualified for free, reduced-price, or paid meals.

The eligibility application for participation states,

³² Subrecipients 1, 6, 10, 11, 19, 20, 21, 24, 25, 26, 28, 29, 32, 35, 37, 39, 41, 42, 43, 44, 45, 46, 47, 50, 51, 52, 53, 54, 55, 57, 58, 59, and 60.

³³ Subrecipients 1, 11, 14, 19, 21, 24, 26, 27, 30, 39, 41, 43, 46, 50, 52, and 60.

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 above because the errors did not negate the participants' eligibility for the program.

Condition D: Subrecipients Did Not Ensure Adequate Eligibility Addendums Are Maintained

Based on testwork performed, we determined that

- 10 of 43 subrecipients (23%) did not retain current eligibility addendums (Subrecipients 11, 14, 20, 27, 28, 32, 35, 51, 55, and 57); and
- 9 of 43 subrecipients (21%) did not retain completed eligibility addendums (Subrecipients 11, 20, 21, 27, 28, 41, 44, 51, and 59).

7 CFR 226.15(e)(2) states,

Documentation of the enrollment of each participant at centers (except for outside-school-hours care centers, emergency shelters, and at-risk afterschool care centers). All types of centers, except for emergency shelters and at-risk afterschool care centers, must maintain information used to determine eligibility for free or reduced-price meals in accordance with §226.23(e)(1). For child care centers, such documentation of enrollment 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.

We did not question costs for the errors noted above because the errors did not negate the participants' eligibility for the program.

Condition E: Subrecipients Claimed the Wrong Category of Meal Status for Their Participants

Based on testwork performed, 21 of 46 subrecipients (46%) did not determine or incorrectly determined each enrolled participant's eligibility for free, reduced-price, and paid meals (Subrecipients 10, 11, 12, 14, 17, 20, 27, 28, 29, 30, 32, 33, 34, 35, 41, 42, 44, 45, 46, 55, and 57).

The *State of Tennessee CACFP Policies and Procedures Manual* states,

To determine the appropriate reimbursement rate for any participant, the information provided on the eligibility application must be compared to the USDA's current eligibility guidelines. The USDA's eligibility guidelines are updated each July 1 and forwarded to all participating institutions.

In addition, 7 CFR 226.10(c) states,

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.

We were able to identify \$2,669 in questioned costs. In order to avoid duplication, we questioned \$1,633 in the Subrecipient Eligibility Finding 2016-023. This resulted in questioned costs of \$1,036 for this issue. See Table 1 for a breakdown of questioned costs by subrecipient.

Condition F: Subrecipients Did Not Sign and Date Eligibility Applications

Based on our testwork, 2 of 46 subrecipients (4%) did not sign and date the eligibility applications, which resulted in us reclassifying the participants to the paid category to determine the amount of costs to question in the absence of sufficient documentation.

The *State of Tennessee CACFP Policies and Procedures Manual* states,

All institutions claiming reimbursement for free or reduced-price meals must maintain adequate income eligibility documentation. Adequate documentation to confirm the free and reduced-price eligibility of each participant includes the following:

1. A current application must be on file when reimbursement is claimed for free or reduced-price meals. All applications must be renewed at least every twelve months. Institutions must certify and date each application within the same month as the parent/guardian signs the application. All undated Free and Reduced-Price Meal Applications must be reclassified as paid (i.e., not eligible for free or reduced-price meal eligibility.)

We identified questioned costs of \$4,545 for Subrecipient 24 and \$81 for Subrecipient 46. In order to avoid duplication, we questioned costs for Subrecipient 24 in the Subrecipient Eligibility Finding 2016-023 and questioned costs for Subrecipient 46 in Condition E above.

Condition G: Participant's Guardian Did Not Sign the Eligibility Application

Based on our testwork, 1 of 46 subrecipients (2%) did not obtain a signature on the application from the participant's guardian, making the application incomplete.

The *State of Tennessee CACFP Policies and Procedures Manual* states,

2. All applications on file must be properly completed. A complete application must contain: . . .
 - d. For all applications, the signature of the adult household member completing the application, and the current date.

We identified \$194 in questioned costs for Subrecipient 27. In order to avoid duplication, we questioned these costs in Condition E above.

Condition H: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2015 Financial Integrity Act Risk Assessment. Despite repeat 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 our discussion with department management, a cause for the issues could not be provided. Based on the number and type of errors found in our testwork, as well as management's lack of concurrence with the prior-year findings, the department program staff did not take responsibility to train sponsoring organizations on properly completing and maintaining individual eligibility documentation. Furthermore, we believe this finding is caused by management's position that it is not responsible for noncompliance at the subrecipient level. Management stated in the comments to our prior-year findings that the issues noted in those findings did not represent a compliance issue for the department; however, they may represent issues for the subrecipient.

According to 7 CFR 226.6(a)(5), as part of its pass-through entity responsibilities, the department agrees to ensure participating subrecipients effectively operate the program. Also, 2 CFR 200.62, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Given management's interpretation of responsibility for noncompliance, management has not taken the necessary action to implement enhanced monitoring activities for subrecipients who present fraud risk indicators. For more causes of the issues discussed in this finding, see the Overall Subrecipient Oversight Finding 2016-019.

Effect

Because the Former Interim Director of Community Services did not ensure subrecipients performed required eligibility determinations and maintained proper documentation to support eligibility determinations, the department improperly reimbursed subrecipients for ineligible participants or for participants whose eligibility was unsupported. Until the current management accepts its responsibility as a pass-through entity, implements sufficient controls, and ensures corrective action at all levels, the department will continue to have increased risk of improperly reimbursing subrecipients in the program.

Federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific Conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We questioned costs totaling \$1,085 for the conditions noted above. See a summary of the known questioned costs in Table 1.

Table 1
Summary of Questioned Costs

Subrecipient	Questioned Costs
Subrecipient 11	\$0*
Subrecipient 14	\$0*
Subrecipient 20	\$484
Subrecipient 24	\$0*
Subrecipient 27	\$0*
Subrecipient 28	\$300
Subrecipient 29	\$0*
Subrecipient 30	\$0*
Subrecipient 32	\$99
Subrecipient 33	\$0*
Subrecipient 35	\$0*
Subrecipient 42	\$0*
Subrecipient 43	\$46
Subrecipient 44	\$0*
Subrecipient 46	0*
Subrecipient 57	\$153
Subrecipient 60	\$3
Total	\$1,085

*In the Subrecipient Eligibility Finding 2016-023, we questioned all costs paid to these subrecipients during federal fiscal year 2016, totaling \$384,518, based on unsupported eligibility determinations. If we did not question costs in Finding 2016-023, there would have been \$7,263 in questioned costs for the subrecipients in Table 1. In order to avoid duplication, we will not question costs for the \$6,178 related to individual eligibility issues for these subrecipients in 2016-023, leaving \$1,085 remaining in our questioned costs, as seen in Table 1.

Our testwork included a review of 60 subrecipient meal reimbursement claims totaling \$1,631,181, from a population of 497, totaling \$72,360,842, for the period July 1, 2015, through June 30, 2016 (the state's fiscal year). Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. According to 2 CFR 200.84,

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

- (a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Commissioner and the Director of CACFP and Summer Food Service Program (SFSP) should ensure all subrecipients are properly trained, perform required eligibility determinations, and maintain proper documentation to support eligibility determinations. In addition, management should accept its responsibility as a pass-through entity to ensure sufficient controls are in place and corrective action is taken at all levels.

If subrecipients continue to not maintain supporting documentation or correctly determine participant eligibility, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management's Comment

The Department concurs in part.

The Department concurs that issues noted in conditions A-G resulted in non-compliance by the subrecipients. These types of issues are also noted in the Department's External Program Review monitoring reports. For example, in the Department's monitoring report for subrecipient 30, the report identified 4 findings:

- The number of participants reported in the free, reduced-price and paid categories was incorrect,
- The Sponsor reported incorrect meal counts,
- The supplement menus did not meet USDA requirements, and
- A meal observed did not meet USDA meal pattern requirements.

The monitoring report has also questioned costs.

Also, the Department's monitoring report for subrecipient 28, the report identified 2 findings:

- The number of participants reported in the free, reduced-price and paid categories was incorrect, and
- CACFP application on file had regulatory deficiencies.

The monitoring report also has questioned costs.

The Department does not agree that the Department's program staff did not take responsibility to train sponsoring organizations on properly completing and maintaining individual eligibility documentation. In fact, the Department's CACFP program staff provides annual training for all CACFP subrecipients that included, but not limited to, information on:

- Accurately determining participant eligibility;
- Requirements for maintaining complete and accurate eligibility applications and addendums as required by federal regulations; and
- Reinforcing application requirements.

Additionally, supplemental training material is available online and CACFP subrecipients can request individualized training and technical assistance to address specific areas of need.

It should be noted that under the Sponsoring Organization Provisions of *Title 7 of the Code of Federal Regulations* §226, applicable parts, require the subrecipient to collect and maintain all eligibility documentation and to make available that documentation upon request. If upon review, documentation was determined to be insufficient to support eligibility determinations, corrective action is required.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

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 2016-019, its monitoring process is not sufficient to address fraud risks and/or results that require additional analysis. This finding is the result of management's and sponsors' inadequate internal controls and/or noncompliance with federal regulations.

While the department has updated internal controls through the implementation of TIPS, these procedures were not in place during our audit period.

Finding Number	2016-026
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, and 201616N109945
Federal Award Year	2011 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	2015-026
Pass-Through Entity	N/A
Questioned Costs	N/A

For the third year, 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 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, DHS is responsible for ensuring that subrecipients are eligible 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. Federal regulations require sponsoring organizations to monitor feeding sites at least three times a year. 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 July 2012.

As noted in the prior two audits, DHS did not ensure sponsoring organizations performed adequate monitoring of their feeding sites. The department's management concurred in part with this finding in the audit for the year ended June 30, 2014 (Finding 2014-024). The department stated that

The Department of Human Services does not agree that proper oversight was not provided. . . . The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential

increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The department did not concur with this finding in the audit for the year ended June 30, 2015 (Finding 2015-026). The department stated that

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.

Condition

We selected 10 CACFP subrecipients from a population of 497 based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2016. To test the remaining population of 487 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients. For each subrecipient, we haphazardly selected one feeding site, and tested documentation of the monitoring performed by the sponsor for that site. The *Code of Federal Regulations* (CFR) defines a sponsoring organization as an institution that is administratively responsible for one or more day care homes or two or more child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers, and adult day care centers. Of the 60 subrecipients in our sample, 18 were sponsoring organizations, which are required to perform self-monitoring visits on sites that are under their administration. The remaining 42 subrecipients in our sample are responsible for one home or center; therefore, they would not be considered a sponsor and are not applicable to this finding. We planned our initial tests for these 18 sponsors only. Given the results of our tests and based on management's stated position, we did not expand our testwork to test additional sponsors.

Based on our testwork, we noted several issues with sponsoring organizations not using the correct monitoring form, not performing monitoring visits, not performing reconciliations, and not ensuring enrollment forms were up to date. See Table 1.

Table 1
Subrecipient-Self Monitoring Issues

Reasons		Sponsoring Organization
Issue A	6 of 18 sponsoring organizations (33%) did not comply with the number and type of required monitoring visits required by CFR.	Sponsoring Organization 3 Sponsoring Organization 5 Sponsoring Organization 6 Sponsoring Organization 7 Sponsoring Organization 8 Sponsoring Organization 9

	Reasons	Sponsoring Organization
Issue B	5 of 18 sponsoring organizations (28%) did not use the current monitoring guide issued by the DHS.	Sponsoring Organization 1 Sponsoring Organization 2 Sponsoring Organization 4 Sponsoring Organization 5 Sponsoring Organization 10
Issue C	1 of 18 sponsoring organizations (6%) did not perform a 5-day reconciliation of the feeding sites' meal counts, enrollment records, and attendance roster while on a monitoring visit, as required by CFR.	Sponsoring Organization 5
Issue D*	1 of 10 sponsoring organizations (10%) did not perform an assessment of the facilities' compliance with program requirements related to annual updates and content of enrollment forms, as required by CFR.	Sponsoring Organization 5

*Of the 18 sponsoring organizations in our sample, 8 are at-risk afterschool care centers or emergency centers. The other 10 sponsoring organizations are responsible for child care centers or day care homes. Sponsoring organizations of at-risk afterschool care centers or emergency centers are not required to maintain enrollment forms. Therefore, the sample size for Issue D is 10 sponsors that were required to maintain enrollment forms instead of 18 as in Issues A through C.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2015 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 sponsoring organizations meet eligibility requirements.

Criteria

Sponsors are required to regularly monitor their feeding sites, as stated in Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 16(d)(4)(iii):

Frequency and type of required facility reviews. Sponsoring organizations must review each facility three times each year. . . . 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.

In addition, the *State of Tennessee Child and Adult Care Food Program Policies and Procedures Manual* states,

A sponsoring organization must ensure that the meal services of each sponsored child care center are monitored subject to the following requirements: . . .

5. The standard monitoring guide issued by the DHS must be utilized to complete all feeding site reviews, and must be maintained for inspection by state and federal personnel.

7 CFR 226.16(d)(4)(i) states,

Review elements. Reviews that assess whether the facility has 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, as specified in paragraph (d)(4)(ii) of this section, 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 (if the facility is required to have enrollment forms on file, as specified in §§226.15(e)(2) and 226.15(e)(3)).

Cause

We discussed the issues presented within this finding with DHS management. Based upon that discussion, the department could not provide a reason why the issues occurred. Furthermore, we believe this finding is caused by management's position that it is not responsible for noncompliance at the subrecipient level. Management stated in the comments to our prior-year findings that the issues noted in those findings did not represent a compliance issue for the department, however, it may represent an issue for the subrecipient.

According to 7 CFR 226.6(a)(5), as part of its pass-through responsibilities the department agrees to ensure participating subrecipients effectively operate the program. Also, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, CFR, Part 200, Section 62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable

assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Effect

When the former Interim Director of Community Services did not ensure sponsoring organizations complied with federal requirements and program guidelines to fulfill responsibilities for monitoring the feeding sites, all parties (the department, the sponsor, and the feeding sites) did not meet federal requirements. Federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific Conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner and the Director of CACFP and the Summer Food Service Program (SFSP) should accept the department's responsibility as a pass-through entity and ensure sufficient controls are in place and corrective action is taken at all levels. The Director of CACFP and SFSP should develop and implement adequate training to ensure sponsoring organizations understand how to comply with federal requirements to monitor their feeding sites, as required in the CFR. Sponsoring organizations should also be made aware of the proper form to use to document the monitoring. Also, the Director of Audit Services should ensure the External Program Review's³⁴ (EPR) review worksheet is updated to require EPR monitors to document their review of sponsoring organizations' compliance with the required self-monitoring activities, as stated in the Criteria section above. If sponsoring organizations continue to inadequately monitor their feeding sites, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

In addition, management should reassess management's risk assessment to ensure controls are properly designed in order to mitigate all risks related to this issue and should document the mitigating controls in management's risk assessment.

Management's Comment

The Department does not concur.

The Department provides annual training for all CACFP Sponsoring Organizations (Sponsor) that included specific information on monitoring requirements. Training also included requirements for maintaining complete and accurate monitoring forms and other documentation as required by federal regulations. Additionally, individualized training and technical assistance is available to all Sponsors upon request. The Sponsors are required to conduct and maintain all

³⁴ As of October 2016, External Program Review changed its name to Audit Services.

monitoring documentation and to have it available for the Department's External Program Review (EPR) monitors for review upon request. If upon review, the Sponsor's monitoring documentation is insufficient or unavailable, the Sponsor must submit corrective action to remedy the problems. If the Sponsor failed to submit the corrective actions to the food program management, the Sponsor contract becomes subject to termination from the food program.

The Department's EPR monitors the Sponsors for this requirement and has documented non-compliance with this requirement through its monitoring findings. For a single quarter, July 1, 2016 through September 30, 2016, EPR released 65 CACFP sponsor monitoring reports where 6 monitoring reports indicated that Sponsor did not complete the required monitoring and/or the monitoring guides as required.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

As recommended in the finding, the department should pursue remedies available to it when sponsors continue to not comply with federal requirements. While the department states that it provide sufficient training and that its monitors identify and report noncompliance through the monitoring reports, management has not expanded monitoring efforts to determine suspicious patterns or fraud risks and thus has not taken further action to address sponsors who continue to not comply.

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 2016-019, its monitoring process should be enhanced.

Finding Number	2016-027
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
Federal Award Identification Number	2010IN109945, 2012IN109945, 2014IN109945, 2015IN109945, and 201616N109945
Federal Award Year	2010, 2012, and 2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services has inadequate internal controls over subrecipient monitoring

Background

The Child and Adult Care Food Program (CACFP) and the Summer Food Service Program (SFSP) for children are 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 and SFSP, 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 and the Tennessee Information Payment System online applications. Department management is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. 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 established the Audit Services process as its only control for determining the accuracy of the claims received from subrecipients. Since Audit Services is a control that occurs long after the department has reimbursed the claim, the department may not detect a claim overpayment or underpayment until several months after the payment, if it detects the error at all.

Audit Services Monitoring Process

Audit Services staff complete a CACFP and SFSP review guide during each monitoring visit. This review guide is intended to capture details of subrecipients' and vendors' (in cases where the subrecipient purchases meals from a vendor) compliance or noncompliance with federal regulations. After completion of a monitoring visit and subsequent management review, Audit Services releases a monitoring report. Each report identifies either subrecipient compliance or noncompliance with federal regulations. For each report identifying subrecipient

noncompliance, Audit Services staff include a finding for each instance of noncompliance and the amount of costs required to rectify the noncompliance (also known as questioned costs). DHS requires subrecipients that receive an Audit Services monitoring report with findings to resolve any questioned costs and complete a corrective action plan (CAP). CACFP and SFSP program staff review the subrecipients' CAPs to either accept or reject the proposed corrective action, and Audit Services staff follow up on the accepted CAPs during the next monitoring visit.

Condition

We selected a nonstatistical, random sample of 60 CACFP Audit Services monitoring reports representing 57 subrecipients from a population of 139 Audit Services monitoring reports released during the audit period of July 1, 2015, through June 30, 2016. For the 60 Audit Services monitoring reports selected, we reviewed the Audit Services monitoring files that supported each report. We also reviewed all 51 monitoring files for the 51 SFSP subrecipients Audit Services monitored during the audit period.

Based on our review, we noted that Audit Services' staff

- did not always complete CACFP and SFSP monitoring review guides;
- did not ensure findings noted in the monitoring report were properly supported by the monitoring files;
- did not follow up on a CACFP subrecipient's CAP to correct prior review findings;
- did not correctly calculate CACFP and SFSP questioned costs; and
- did not complete the minimum number of site visits for a SFSP subrecipient.

Incomplete Review Guides

Based on our review, we noted that for 5 of 60 CACFP Audit Services monitoring reports (8%) and 4 of 51 SFSP monitoring files (8%) reviewed, Audit Services staff did not fully complete the monitoring guides. Audit Services staff did not answer all questions on the CACFP monitoring guide, did not complete the fiscal portion of the SFSP sponsor review guide for three sponsors, and did not complete a vendor review guide for one SFSP sponsor.

After the end of fieldwork, the department provided documentation for this issue; therefore, we did not audit this documentation. We will follow up on this issue during the department's next single audit.

Monitoring Reports and Monitoring Files Did Not Agree

Of the 60 CACFP Audit Services monitoring reports selected for testwork, 52 reports (87%) contained serious deficiencies or findings. Based on our testwork, we noted that 2 of the 52 CACFP Audit Services monitoring reports (4%) included findings that were not documented in the monitoring files. Therefore, without sufficient documentation we were unable to determine the reliability of the monitoring reports.

Based on our review of the SFSP monitoring files, we determined that 1 of 51 monitoring files (2%) did not agree with the monitoring report. Audit Services staff documented in the monitoring file that the subrecipient underclaimed meals served, did not owe excess funds, and owed for excess advance payments of \$42,043; however, the monitoring report indicated that the subrecipient owed the department for an overpayment for meals served, owed \$15,908 for excess funds, and owed only \$9,209 for excess advance payments. Given the differences in results between the report and the supporting file, we could not determine which document was accurate or that Audit Services staff performed proper follow-up of corrective actions.

After the end of fieldwork, the department provided documentation for this issue; therefore, we did not audit this documentation. We will follow up on this issue during the department's next single audit.

Audit Services Staff Did Not Follow Up on CACFP Subrecipients' Corrective Action Plans

To ensure Audit Services staff followed up on corrective action plans (CAPs) from prior monitoring reports, we reviewed prior monitoring reports for all 57 CACFP subrecipients and identified 44 monitoring reports that had serious deficiencies or findings that required the subrecipients to submit a CAP to the department. Based on our comparison of the monitoring reports to the supporting files, we noted that for 8 of the 44 CACFP Audit Services monitoring reports (18%), the department did not retain the prior CAP before completing the next monitoring visit. Therefore, Audit Services could not provide us evidence that Audit Services staff followed up on all corrective actions required of the subrecipients based on the accepted CAP; thus, Audit Services could not ensure the corrective actions had been implemented and were effective.

The U.S. Department of Agriculture (USDA) Food and Nutrition Services Southeast Regional Office (FNS SERO) staff released a Special Nutrition Programs Management Evaluation Report for fiscal year 2015 on February 8, 2016. In Finding 2.1 of the report, FNS SERO identified that the department did not verify that corrective actions, such as providing technical assistance, had been taken or document the actions taken. Furthermore, FNS SERO found through file review that the CAPs submitted were only documented as "CAP accepted" by CACFP staff without documentation, evaluation, or explanation of the adequacy of the CAP.

Inaccurate Questioned Costs Amounts Reported to SFSP Subrecipients

Based on our review of the SFSP monitoring files, we noted that for 4 of 51 subrecipient monitoring files reviewed (8%), Audit Services staff did not correctly calculate overpayments for disallowed meals and excess funds. Audit Services staff used a higher meal reimbursement rate when calculating the overpayments, resulting in the department requesting repayment of funds in excess of what the subrecipients actually owed. In addition, we noted that although Audit Services' monitoring file indicated that the sponsor underclaimed meals and that the department owed the subrecipient, Audit Services' monitoring report stated that the subrecipient owed the department for an overpayment.

Minimum Site Visits Not Performed

Based on our review of the SFSP monitoring files, we noted that Audit Services staff did not conduct the minimum required number of site visits for one sponsor. Audit Services staff should have conducted at least one site visit at one of the sponsor's 11 feeding sites. The Audit Services monitor attempted to conduct a site review 5 times at 3 different approved feeding sites, but was unsuccessful on any of the attempts. The department could not provide explanation for, nor could we determine, why the monitoring visits were unsuccessful.

Risk Assessment

Another element of our testwork involved reviewing the department's November 2015 Financial Integrity Act Risk Assessment. We determined that management did not include in the assessment the specific risks and mitigating controls associated with Audit Services staff not following monitoring guidelines and not ensuring monitoring reports reflect the results of monitoring reviews.

Criteria

The USDA's *Monitoring Handbook for State Agencies* [CACFP] states,

When a State agency monitor conducts a CACFP review of an institution, the forms must include all required areas of review and must be fully completed to be considered as a review. Monitors should be familiar with the review forms and the instructions the State agency uses to conduct reviews. The monitors will also have copies of the review forms and all other review with them in either electronic or printed form. Reviews must, at a minimum, contain questions pertaining to the required elements.

The USDA's *State Agency Monitoring Guide* [SFSP] states,

The State agency is responsible for developing a monitoring system . . . which includes forms to collect data from the review. The review forms must include all required areas of review and all required areas must be fully completed.

The CACFP handbook also states, "All deficiencies and findings found during the review . . . must then be listed as findings in the written report."

The SFSP handbook states,

Once the site review portion of the review is complete, the State agency is responsible for incorporating the review results into a report. The report must include the review findings, a Corrective Action Plan that summarizes the agreed-upon corrective actions and associated timeframes for corrective action, and any potential fiscal action.

The CACFP handbook states,

Prior to beginning the review of an institution or a facility, the State agency monitor must be knowledgeable of the institution's or facility's claim history as well as any past Program violations. If Program violations were identified on the previous review, the State agency monitor must also determine whether the previous corrective action was implemented and effective.

According to Title 7, *Code of Federal Regulations* (CFR), Section 225, Part 7(d)(2)(ii),

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.

Cause

When we discussed the errors noted in this finding with management, management did not provide a reason why the errors occurred. See Finding 2016-019 for further details on issues related to the subrecipient monitoring process.

Effect

When the Director of Audit Services does not ensure controls are implemented to ensure Audit Services staff complete monitoring and report on subrecipient monitoring reviews, there is an increased risk of 1) Audit Services staff incorrectly determining subrecipient compliance with federal regulations and 2) the department inappropriately requesting funds not owed or not requesting all money owed for overpayments.

Federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific Conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner of the Department of Human Services should ensure the Audit Services Director implements controls to ensure the subrecipient monitoring process complies with federal regulations. These controls should ensure Audit Services staff fully complete all review guides and monitoring reports and include all findings or issues noted during the monitoring review. The Commissioner should analyze and improve the subrecipient monitoring process to ensure department staff maintain subrecipients' corrective action plans.

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

The Department concurs in part.

The Department agrees with the conditions of this finding, except as noted below.

The Department does not agree that two of the 52 CACFP Audit Services monitoring reports (4%) included findings that were not documented in the monitoring files. Those two monitoring

reports were properly supported, and the following information was communicated to the auditors:

- The two Findings from the one monitoring report were documented in the EPR's working papers; and
- One Serious Deficiency Report was not based on the EPRs monitoring working papers, but was based on a Sponsor's Board of Directors Report, the findings of which were the impetus for the auditor's own prior-year investigative report on the Sponsor.

In order to address the findings identified, the Department will utilize electronic working paper software that will mitigate errors. Additionally, software will enable the supervisor to review monitoring working papers at any location. The Department will continue to provide training (external and internal) to auditors and monitors.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

At the time of our audit fieldwork, management did not provide documentation to demonstrate that the monitoring working papers supported the monitoring reports. Management provided documentation in February 2017 after the end of our fieldwork; therefore, we were not able to review the sufficiency of this documentation.

Finding Number	2016-028
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
Federal Award Identification Number	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, 2015IN109945, and 201616N109945
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not always communicate all subaward information to subrecipients as required by federal regulations

Background

The U.S. Department of Agriculture administers the Child and Adult Care Food Program (CACFP) and the Summer Food Service Program for Children (SFSP) at the federal level. The Department of Human Services (DHS) administers these programs at the state level by determining subrecipient eligibility; approving and notifying subrecipients of subaward information; approving invoice claims; and assisting subrecipients with technical issues. As the pass-through entity, DHS is required to communicate information related to the federal award to subrecipients. Once DHS program staff approve a subrecipient to participate in the program, the staff issue approval letters to the subrecipients. The subrecipients then complete a provider agreement, which contains the terms and conditions of the award and other federal or state requirements.

Condition

We selected a nonstatistical, random sample of 60 subrecipients (46 CACFP and 14 SFSP) from a total population of 570 subrecipients that DHS approved to participate in CACFP and SFSP during our audit scope of fiscal year 2016. Based on testwork performed, we noted that for 9 of 60 subrecipients tested (15%), DHS program staff did not provide documentation to prove staff communicated all the required federal subaward information to the subrecipients.

Criteria

According to Title 2, *Code of Federal Regulations*, Part 200, Subpart D, Section 331(a),

All pass-through entities must:

Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal Award Identification.

- (i) Subrecipient name (which must match the name associated with its unique entity identifier);
- (ii) Subrecipient's unique entity identifier;
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see §200.39 Federal award date) of award to the recipient by the Federal agency;
- (v) Subaward Period of Performance Start and End Date;
- (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient;
- (vii) Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation;
- (viii) Total Amount of the Federal Award committed to the subrecipient by the pass-through entity;
- (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the Pass-through entity;
- (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- (xii) Identification of whether the award is R&D; and
- (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).

Cause

The Director of CACFP and SFSP stated that the department relied on the Tennessee Information Payment System (TIPS) to generate an email to subrecipients to communicate some of the subaward information upon approval of the application. The department did not retain copies of these emails and could not reproduce the emails when we requested documentation to support they communicated all the required subaward information.

Effect

When the department does not retain documentation of their communication of subaward information, they cannot ensure the information was communicated to the subrecipient. In addition, there is an increased risk that subrecipients will not properly account for federal funds and properly report federal funds in their financial statements.

Recommendation

We recommend that DHS management ensure federal award documentation is maintained on file as evidence of compliance.

Management's Comment

The Department concurs.

The Department concurs that system generated e-mail from the Tennessee Information Payment System (TIPS) to the subrecipient that contains subaward information was not available for review for 9 of the 60 subrecipients tested.

The Food Program Management archived several of these e-mails and provided to the auditors. The Department will communicate to all subaward information to food program subrecipients during the training and in the agreement documentation, as required by federal regulations.

Finding Number	2016-029
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945 and 201616N109945
Identification Number	
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-031
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.559	2015IN109945	FY2016: \$22,986
10.559	201616N109945	FY2017: \$3,078

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 reimbursements in accordance with federal guidelines, resulting in \$26,064 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.

SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our audit for SFSP crossed two state fiscal years. Our audit scope was July 1, 2015, through June 30, 2016, and our SFSP review included the following periods:

- Summer 2015 (May through September 2015 with the months of July through September falling within our audit scope); and
- Summer 2016 (May through September 2016 with the months of May and June falling within our audit scope).

During the 2015 program (July through September 2015 of our audit scope), sponsors submitted claims for reimbursements for eligible meals either through a paper claim or electronically through the Tennessee Food Program (TFP) information system. Beginning in the 2016 program (May 2016), DHS replaced TFP by implementing the Tennessee Information Payment System (TIPS) to process reimbursement payments to sponsors. 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 to comply with federal guidelines during the meal reimbursement process.

Our testwork included a review of meal reimbursement claims paid during 2016 and 2017. We planned our testwork as follows:

- We selected a nonstatistical, random sample of 60 meal reimbursement claims, totaling \$3,129,739, from the population of 148 SFSP sponsors' meal reimbursement claims paid during state fiscal year 2016, totaling \$7,040,752.
- We followed up on noncompliance identified in the current and prior Single Audit to determine whether subrecipients properly adjusted their reimbursement claims after we completed our meal observation reviews. Specifically, we followed up on the 20 sponsors we identified for noncompliance as reported in Finding 2016-031 and the 5 sponsors identified for noncompliance and reported in Finding 2015-032 from the 2015 *Single Audit Report*. To follow up, we compared the specific date of noncompliance for the claim month reviewed and for which the noncompliance occurred to ensure that when sponsors submitted the actual claims for reimbursements that they did so based on corrected meal counts as discussed during the meal observation. Based on our follow-up for the 25 sponsors, we also expanded our review for 8 sponsors, as shown in Table 4.

Based on our testwork, we determined that DHS reimbursed sponsors for inaccurate meal reimbursement claims and did not identify sponsors' noncompliance. Specifically, we found that

1. sponsors did not maintain complete and accurate supporting documentation for meal claims submitted to DHS for reimbursement;
2. sponsors incorrectly accounted for second meals on reimbursement claims;
3. sponsors provided photocopied and modified meal count forms to support their reimbursement requests;
4. sponsors did not claim or maintain documentation with the correct number of meals based on our meal service observations, despite the fact that we discussed the instances of meal service noncompliance with sponsors' and sites' staff at the time of or subsequent to our visit; and
5. in instances where we expanded our review, sponsors could not provide accurate supporting documentation for meal claims filed with DHS for reimbursement.

As reported in findings in the two prior audits, we reported that sponsors had not complied with established federal regulations required to support the meal reimbursement claims. Management

did not concur with the most recent prior finding and stated that they were not directly responsible for the sponsors' noncompliance with SFSP requirements. Specifically, management did not take responsibility for noncompliance occurring at the sponsor level and stated that it is the direct responsibility of sponsors to maintain the documentation in accordance with SFSP guidelines. While the sponsors are certainly responsible for maintaining supporting documentation, the department, as the pass-through entity, cannot pass its "ultimate responsibility" for federal compliance to the subrecipients. For more information about management's responsibility and issues related to the subrecipient monitoring process, see Finding 2016-019.

Risk Assessment

We reviewed DHS' November 2015 Financial Integrity Act Risk Assessment and determined that although management listed unallowable costs charged to a federal program as a risk, the department—despite prior audit findings—did not mitigate its risk by establishing proper oversight and preventive/detective controls for the errors and noncompliance noted in this continuing condition.

Condition A and Criteria: *Claims could not be accurately supported and/or were submitted based on inaccurate meal counts*

Our testwork revealed that for 22 of 60 meal reimbursement claims tested (37%), staff did not ensure the sponsors maintained complete or accurate supporting documentation for claims filed with the department.

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.

Questioned Costs for This Condition

See Table 1 for details of questioned costs for this condition.

Table 1
Summary of Questioned Costs for Unsupported Claims

Sponsor	Questioned Costs^{35,36}	Number and Type of Meals Represented in the Questioned Costs
Sponsor 1	\$0	-
Sponsor 2	\$25	12 breakfasts
Sponsor 3	\$0	-
Sponsor 4	\$130	10 breakfasts 30 lunches
Sponsor 5	\$0	-
Sponsor 6	\$7	2 lunches
Sponsor 7	\$1,329	1,536 PM snacks
Sponsor 8	\$1,064	146 lunches 146 suppers
Sponsor 9	\$436	80 breakfasts 80 lunches
Sponsor 10	\$6,115	2,854 breakfasts 51 lunches
Sponsor 11	\$142	39 lunches
Sponsor 12	\$218	105 breakfasts
Sponsor 13	\$18	3 lunches 2 suppers
Sponsor 14	\$56	27 breakfasts
Sponsor 15	\$190	10 breakfasts 196 snacks
Sponsor 16	\$104	50 breakfasts
Sponsor 17	\$7	2 lunches
Sponsor 18	\$1,721	390 breakfasts 250 lunches
Sponsor 19	\$2,318	1,086 breakfasts 17 lunches
Sponsor 20	\$0	-
Sponsor 21	\$25	12 breakfasts
Sponsor 22	\$1,041	78 breakfasts 161 lunches 80 suppers
Total	\$14,946	

³⁵ Sponsors without questioned costs indicate the claim review resulted in the sponsor underclaiming meals for the month reviewed.

³⁶ Claims submitted by sponsors into TFP are compiled monthly by combining the numbers of all meal types (breakfast, lunch, supper, and snack, if applicable) served at all approved feeding sites per particular claim period we tested. We calculated the amounts of questioned costs by reviewing supporting documentation, or lack thereof, for all feeding sites, or in some cases haphazardly selected feeding sites to justify the amounts we questioned.

Condition B and Criteria: *Sponsors incorrectly accounted for second meals*

For 2 of 30 meal reimbursement claims reviewed that included second meals on the claim (7%), we noted that a sponsor and DHS Audit Services section incorrectly calculated second meals. Specifically, we noted that Sponsor 4 claimed more than 2% of the first meals when calculating second meals. We also noted that for Sponsor 24, Audit Services calculated the second meal cap using the original meal count although the DHS monitor had disallowed meals and thus should have adjusted the calculation for allowable second meals. Even though Sponsor 24 submitted a revised claim, the revised claim was based on the monitor's incorrect calculation. We questioned \$143 for the second meals claimed above the 2% limit. We questioned \$133 for Sponsor 4 and \$10 for Sponsor 24.

According to the *Summer Food Service Program 2016 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.

Condition C and Criteria: *Sponsors provided photocopied and inappropriately modified daily meal count forms to support reimbursement payments*

For 3 of 60 meal reimbursement claims reviewed (5%), the sponsors maintained photocopied and modified meal count forms to support reimbursement payments. Specifically, we noted the following:

- Sponsor 9, Sponsor 13, and Sponsor 25 provided photocopied meal count forms, suggesting that the sponsors did not take an actual point-of-service meal count each day. Sponsor 9 provided photocopied meal count forms; Sponsor 13 provided photocopied meal count forms for 3 sites representing 13 days, and Sponsor 25 provided photocopied meal count forms representing 21 days to support meal counts for one site.
- Sponsor 13 provided a modified daily meal count form for one site. We compared the meal count form obtained directly from Sponsor 13 with the meal count form that Audit Services' monitors obtained during a monitoring review and retained in the Sponsor 13 Audit Services' file and found that the sponsor modified the form by increasing the total meals served by two meals.

Because meal count forms were photocopied, we were unable to determine that sponsors completed the daily meal count forms as required at a point-of-service. The modified meal count form suggests that the sponsor changed (increased) the number of meals initially claimed on the form after the form had been reviewed by the DHS monitor. Because we were provided two different numbers for the meals claimed for the same day at the same site, we were unable to determine which of the numbers was accurate.

According to 7 CFR 225.15(c),

Sponsors shall maintain accurate records which justify all costs and meals claimed. Failure to maintain such records may be grounds for denial of reimbursement for meals served and/or administrative costs claimed during the period covered by the records in question. 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.

The *Summer Food Service Program 2016 Administrative Guidance for Sponsors* states that "Daily Meal Count Forms are required." The guidance also states that "Each site must take a point-of-service meal count every day."

Lastly, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, pertaining to an assessment and types of fraud risks within an entity, states,

Fraudulent financial reporting – Intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. This could include intentional alteration of accounting records, misrepresentation of transactions, or intentional misapplication of accounting principles.

Questioned Costs for This Condition

We questioned \$7,770 for the days where the sponsors photocopied or modified the meal count forms. See Table 2 for details of questioned costs per individual sponsors.

Table 2
Summary of Questioned Costs for Photocopied and Modified Meal Count Forms

Sponsor	Number of Days Photocopied or Modified Meal Count Forms Were Used to Calculate Reimbursement Amounts	Questioned Costs
Sponsor 9	10 days (photocopied)	\$2,123
Sponsor 13	13 days (photocopied) and 1 day (modified)	\$1,848
Sponsor 25	21 days (photocopied)	\$3,799
Total Questioned Costs		\$7,770

Condition D and Criteria: *Claims could not be accurately supported and/or were submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review)*

Of the 25 meal reimbursement claims we reviewed as part of our prior finding follow-up, we noted that 5 sponsors (20%) claimed or maintained documentation that did not agree to the number of meals that we physically observed during our observation of the sponsor's meal

service. Despite the fact that we discussed the meal service noncompliance with the feeding sites' staff and sponsors during or subsequent to our meal service observations, sponsors did not submit accurate meal claims. Specifically, we observed the following:

- At the time of our visit, we observed, and Sponsor 10's Site Supervisor and School Operations Director agreed, that only seven meals met compliance with SFSP regulations; however, Sponsor 10 did not claim any meals for the day we observed. In addition, although Sponsor 10 did not file for reimbursement, it maintained the incorrect meal count sheet with its documentation indicating 78 meals were allowable instead of revising the meal count sheet to indicate seven meals were allowable for reimbursement. By maintaining the meal count form for 78 meals but not claiming any of these meals, the sponsor did not comply with the accurate recordkeeping requirement and could potentially be cited for an underclaim from Audit Services monitors, which could result in the department trying to pay them later for meals not allowed but unknown by monitors.
- Even though we discussed with Sponsor 26's Site Supervisor that only 3 meals were in compliance with SFSP regulations on the day of our observation, Sponsor 26 claimed 80 meals for that day.
- We observed, and Sponsor 27's Site Supervisor/Assistant Administrator agreed, that only 7 of the 35 meals served on the day of our observation were in compliance with SFSP regulations; however, Sponsor 27 claimed 21 meals for that day.
- We observed, and Sponsor 28's Summer Coordinator agreed, that none of the 98 meals served on the day of observation were in compliance with SFSP regulations; however, Sponsor 28 claimed 98 meals on that day. Sponsor 28 maintained that the meal count form documenting the 98 meals served as support for the meal reimbursement claim with a note attached to not claim the meals. Even though they added the note to "not claim," the sponsor did anyway.
- We observed, and Sponsor 29's Site Supervisor and Food Program Coordinator agreed, that none of the 50 breakfast meals served during our meal service observation were in compliance with SFSP regulations and could not be claimed for the reimbursement; however, Sponsor 29 claimed all 50 meals for that day.

According to 7 CFR 225.15(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.

In addition, the *Summer Food Service Program 2016 Administrative Guidance for Sponsors* states,

Unallowable costs are costs for which Program funds may not be used. They include, but are not limited to: . . . Meals served in violation of Program requirements.

Questioned Costs for This Condition

See Table 3 for questioned costs per individual sponsors.

Table 3
Summary of Questioned Costs for Meal Service Observation Follow-Up

Sponsor	Questioned Costs³⁷
Sponsor 10*	\$0
Sponsor 26	\$288
Sponsor 27	\$30
Sponsor 28	\$87
Sponsor 29	\$107
Total	\$512

* Errors noted with Sponsor 10 resulted in underclaimed meals; therefore, we did not question any costs.

Condition E and Criteria: *Claims could not be accurately supported and/or submitted based on inaccurate meal counts (Expanded Review)*

Of the 25 meal services that we followed up on, we expanded our claim review for 8 sponsors (32%) on a case-by-case basis, using our judgement and taking into consideration overall present and prior experience with sponsors, types of meal service noncompliance observed, organization of accounting records, and communication and cooperation. We expanded to not only look at the day of our meal observation, but also to review the entire month of meals claimed for the feeding site where we observed noncompliance, review additional feeding sites, or review the sponsor's entire claim for all feeding sites. See Table 4 for the extent of our review for the 8 sponsors. Based on our expanded testwork performed, we noted that all 8 sponsors (100%) could not accurately support the meals claimed or the sponsors submitted claims for reimbursement based on inaccurate meal counts.

Table 4
Expansion of Review

Sponsor	Expanded Period	Expanded Review
Sponsor 9	June 2016	one site
Sponsor 23	July 2015	sample of sites
Sponsor 26	June 2016 and July 2016	entire claims
Sponsor	Expanded Period	Expanded Review
Sponsor 27	June 2016 and July 2016	entire claims
Sponsor 30	June 2016	one site

³⁷ The questioned costs were determined based on the review of the daily meal count documentation for one day where we observed a meal service.

Sponsor 31	June 2016	one site
Sponsor 32	July 2016	entire claims
Sponsor 33	June 2016 and July 2016	entire claims

According to 7 CFR 225.15(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.

Questioned Costs for This Condition

See Table 5 for details of questioned costs for this condition.

Table 5
Summary of Questioned Costs for Expanded Review

Sponsor	Questioned Costs³⁸
Sponsor 9	\$1,029
Sponsor 23	\$127
Sponsor 26	\$1,128
Sponsor 27	\$41
Sponsor 30	\$11
Sponsor 31*	\$0*
Sponsor 32	\$206
Sponsor 33	\$151
Total Questioned Costs	\$2,693

* Sponsor 31 underclaimed meals. We do not question any costs associated with underclaims.

In addition, we questioned all reimbursement payments Sponsor 31 received for the entire 2016 program in Finding 2016-030.

Cause

The department does not require the subrecipient to provide supporting documentation for each meal reimbursement claim before payment. The department instead relies on Audit Services to review meal reimbursement claim supporting documentation during monitoring visits. Audit Services will normally review only a very small sample of claims during a monitoring visit, often one claim for the program year for a subrecipient. We discussed the issues presented within this finding with DHS management; however, the department did not provide any additional information to explain subrecipients' inaccurate claim reporting.

³⁸ We determined the questioned costs based on the expanded claim review of selected sponsors for selected claim period, as shown in Table 5.

Furthermore, until management accepts responsibility at the department level for program noncompliance, which occurs at the subrecipient level, management has not fulfilled its responsibilities as a pass-through entity as described in federal regulations. In the comments to our prior audit finding, management stated that the issues noted in the finding did not represent a compliance issue for the department but that the issues may represent a compliance issue for the subrecipient. According to 7 CFR 226.6(a)(5), as part of its pass-through responsibilities, the department agrees to ensure that participating subrecipients effectively operate the program. Also, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, CFR, Part 200, Section 62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements and Federal reports;
 - (2) Maintain accountability over assets; and
 - (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- b. Transactions are executed in compliance with:
 - (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
 - (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Given management’s interpretation of responsibility for noncompliance, management has not taken necessary action to implement enhanced monitoring activities for subrecipients who present fraud risk indicators. For more causes of the issues discussed in this finding, see Overall Subrecipient Oversight Finding 2016-019.

In an effort to determine the cause of the noncompliance at the sponsor level, we discussed the errors with the sponsors and feeding site personnel and were given the explanations outlined in Table 6.

Table 6
Reasons for Noncompliance

Conditions	Sponsors	Cause
Condition A: Claims could not be accurately supported and/or submitted based on inaccurate meal counts.	Sponsors 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 19, 20, and 21	Sponsors made a calculation error during the claim preparation process.
	Sponsors 2 and 17	DHS's Audit Services section made calculation errors.
	Sponsors 1 and 18	Errors were due to sponsors' personnel changes.
	Sponsor 22	Site supervisors did not fill out daily meal count forms correctly.
Condition B: Sponsors incorrectly accounted for second meals.	Sponsor 4	The sponsor was unaware of the 2% limit.
	Sponsor 24	Audit Services misapplied the 2% limit for second meals.
Condition C: Sponsors provided photocopied and inappropriately modified daily meal count forms to support reimbursement payments.	Sponsor 9	We repeatedly inquired but were unable to obtain responses to our questions from DHS' management about the noncompliance and errors.
	Sponsor 13	
	Sponsor 25	
Condition D: Claims could not be accurately supported and/or submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review).	Sponsor 10	The sponsor retained an incorrect meal count form.
	Sponsor 26	The sponsor stated that after the meal service was over and after we left the feeding site premises, a staff member remained in her car and another 60 children came and received SFSP meals. We observed the staff member leaving the feeding site premises before we left.
	Sponsor 27	The sponsor could not provide the exact reason why a different meal count was claimed.
	Sponsor 28	The sponsor's staff did not follow the Financial Administrator's instruction to disallow meals.
	Sponsor 29	The sponsor had already filed the claim when we discussed the noncompliance; however, the sponsor neither corrected the reimbursement claim nor contacted the department in an effort to correct the inaccuracy on the claim.

Conditions	Sponsors	Cause
Condition E: Claims could not be accurately supported and/or submitted based on inaccurate meal counts (Expanded Review).	Sponsor 9	The sponsor stated the reason the numbers were inaccurate was because during the 2015 program the sponsor served and claimed meals from June 6 through June 9; however, the department did not approve the sponsor's application for SFSP until June 9.
	Sponsor 23	The sponsor's Nutrition Supervisor stated that meal count forms were filled out incorrectly and meal count forms were missing.
	Sponsors 26, 27, 30, and 32	Sponsors made a calculation error during the claim preparation process.
	Sponsor 31	We were unable to obtain the cause of the sponsor's noncompliance for this condition.
	Sponsor 33	The sponsor's site supervisors incorrectly filled out the daily meal count forms, which the sponsor's President/Administrator processed for claim reimbursements.

Effect

As a pass-through entity for SFSP, DHS is responsible for ensuring that sponsors comply with federal and state requirements. When the department cannot ensure that sponsors comply with federal requirements, DHS will continue to reimburse sponsors for unallowable expenditures resulting from errors, noncompliance, fraud, waste, and abuse.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Summary of Questioned Costs for All Conditions

Because our review crossed two state fiscal years, we questioned costs in applicable fiscal years.

Table 7
Summary of Questioned Costs for All Conditions

Conditions	State Fiscal Year 2016 Questioned Costs	State Fiscal Year 2017 Questioned Costs
Condition A - Claim could not be accurately supported and/or submitted based on inaccurate meal counts	\$14,946	\$0
Condition B - Sponsors incorrectly accounted for second meals	\$143	\$0
Condition C - Sponsors provided photocopied and inappropriately modified daily meal count forms to support reimbursement payments	\$7,770	\$0
Condition D - Claims could not be accurately supported and/or submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review)	\$0	\$512

Condition E - Claims could not be accurately supported and/or submitted based on inaccurate meal counts (Expanded Review)	\$127	\$2,566
Subtotals	\$22,986	\$3,078
Total Questioned Costs	\$26,064	

This finding, in conjunction with other SFSP findings, resulted in total known federal questioned costs exceeding \$25,000 for federal programs that were audited as major programs. Title 2, CFR, Section 200.516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

According to 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.

Recommendation

The Commissioner, the Interim Chief Officer of Program Integrity and Finance, and the Director of Child and Adult Care Food Program (CACFP) and SFSP should accept the department's responsibility as the pass-through entity, as described in federal regulations, and pursue actions afforded to them as such to ensure both subrecipients and the department comply with the federal requirements. The Director of CACFP and SFSP should develop stronger preventive and detective controls over SFSP. These controls should ensure that all sponsors maintain complete and accurate documentation to support the meals served and claimed for reimbursements and that sponsors follow federal guidelines when claiming meals on their meal reimbursements.

If subrecipients continue to not maintain adequate meal reimbursement documentation, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management should also include the risks and corresponding controls associated with SFSP subrecipients not complying with the program requirements in the department's risk assessment.

Management's Comment

The Department concurs in part.

The SFSP program management is responsible as a pass-through entity and works to assist subrecipients and their staff with complying with the federal meal service and documentation requirements. The SFSP program management implemented a proactive and aggressive training approach to help sponsors meet meal service requirements. The SFSP in-person training covers all meal service and documentation requirements and is available to all SFSP applicants. This training is required for all new and returning subrecipients that exhibited significant weaknesses in program operation the previous year. Online training modules that cover meal service and documentation requirements are also available on the Department's website which is available to

the public. Online training is required for all SFSP subrecipients. Additionally, the SFSP program management created SFSP Daily Meal Count Review Training and SFSP Site Supervisor Training which is available online to all SFSP subrecipients and staff.

Condition A and B

The Department concurs that the monitors made calculation errors for Sponsors 2 and Sponsor 17, for \$25 and \$7, respectively as noted in Condition A, and for Sponsor 4 and Sponsor 24, for \$133 and \$10, respectively as noted in Condition B.

The Department provided training in February 2017 to the Department's auditors and monitors on working paper techniques.

The Department does not concur with the inference that the results of the Sponsor deficiencies noted in the finding were the result of inadequate departmental sponsor monitoring. It should be noted that Department conducted monitoring reviews for 11 of the 22 Sponsors, that were noted in the finding and in each case issued findings related to claims that were inaccurately calculated. The chart below includes the Sponsors that were monitored within the test months and whether the monitor's test month was the same test month as noted in the finding.

Summary of Department Monitoring for Sponsors Noted in Table 1

	Sponsor	Test Month(s)	Same Test Month As Noted in the Finding
1	Sponsor 2	June 2015	YES
2	Sponsor 5	June 2015	YES
3	Sponsor 7	June 2015	YES
4	Sponsor 10	June 2015	YES
5	Sponsor 13	June 2015	YES
6	Sponsor 14	June 2015	NO
7	Sponsor 15	July 2015	NO
8	Sponsor 16	June 2015/July 2015	NO/YES
9	Sponsor 17	July 2015	YES
10	Sponsor 19	June 2015	NO
11	Sponsor 22	July 2015	NO

Condition C

The Department concurs in part. The Department agrees that photo copied meal forms represent a fraud risk factor, but the Department faced with the same scenario would need to provide follow-up visits at the feeding sites to determine if the meal count sheets were completed at the point-of-service and through observation, verify if the number of children represented the number claimed. Only after documenting a pattern of behavior at the Sponsor's feeding sites could the Department disallow meals for the entire claim. The risk factor alone would not be sufficient to disallow the entire claim.

The Department must defend its claims of disallowed meal and administrative costs with the Sponsors through the appeal process as described under *Title 7 of the Code of Federal Regulations Section 225.13*.

Condition D and E

The Department does not concur with the inference that the results of the Sponsor deficiencies noted in the finding was the result of inadequate departmental sponsor monitoring. See Management's Comment to Condition A and B.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

This finding identifies the department's lack of complete and accurate supporting documentation. According to 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.

Although management does not concur with our conclusion of an ineffective monitoring process, as evidenced by the numerous repeated conditions reported in this finding, DHS management has yet to implement the enhanced monitoring activities and to expand its own monitoring efforts when subrecipients are noncompliant. Also, management has not pursued remedies available to them when subrecipients remain noncompliant.

Finding Number	2016-030
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	201616N109945
Identification Number	
Federal Award Year	2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	FY 2017: \$137,099

The Department of Human Services approved and paid reimbursements to a newly established sponsor with ties to a sponsor terminated from the program, resulting in \$137,099 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). The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements. In order to participate in the program, sponsors annually submit an application for participation. DHS staff approve the application after staff perform certain verification procedures during the application review process. 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. As a pass-through entity for SFSP, DHS is responsible for ensuring its sponsors are eligible and are able to comply with federal requirements.

SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our audit for SFSP crossed two state fiscal years. Our audit scope was July 1, 2015, through June 30, 2016, and our SFSP review included the following periods:

- summer 2015 (May through September 2015 with the months of July through September falling within our audit scope); and
- summer 2016 (May through September 2016 with the months of May and June falling within our audit scope).

Condition

We tested the entire population of 73 sponsors the department approved to participate in the 2016 SFSP (59 returning sponsors and 14 sponsors that were new to the program) to determine if

the sponsors were correctly determined eligible for program participation. Based on our testwork, we noted that SFSP staff approved one sponsor to participate in the 2016 program even though the sponsor was not eligible for participation. Although the sponsor was classified as a new entity in the program, we found that the sponsor's President and other employees had been directly associated with a sponsor that participated in the 2015 program but had been terminated from the program. We specifically found that, although the department had appropriately denied the 2015 sponsor's 2016 application for failing to submit a Corrective Action Plan and to correct serious deficiencies, the department did not appropriately evaluate all individuals applying as a new sponsor under the program. We found that the department should have identified during its application review process that the former secretary of the disqualified 2015 sponsor had applied to participate as a new sponsor in 2016. The new application indicated that the former secretary was now the President of the new entity. Even though SFSP staff responsible for applicants' approvals may not have realized the new applicant included individuals who were associated with the disqualified entity, SFSP training and technical staff did determine during the required monitoring review of the new sponsor that some of the feeding sites and personnel under the newly established sponsor were the same sites and the same employees of the sponsor that was terminated and disqualified from the program. According to Audit Services' monitoring staff, they communicated this information to SFSP management; however, the department took no further action.

We questioned \$137,099 for the amount DHS paid during state fiscal year 2017 (July through August 2016) to the sponsor operating under a new name but with individuals involved with the disqualified sponsor.

Risk Assessment

We reviewed the DHS November's 2015 Financial Integrity Act Risk Assessment and determined that management listed unallowable costs charged to a federal program and ineligible subrecipients not meeting eligibility requirements as risks; however, the department did not mitigate this risk by establishing proper oversight and preventive controls to avoid the condition noted in this finding.

Criteria

According to Title 7, *Code of Federal Regulations*, Part 225, Section 225.11(c),

Except as specified below, the State agency shall not enter into an agreement with any applicant sponsor identifiable through its corporate organization, officers, employees, or otherwise, as an institution which participated in any Federal child nutrition program and was seriously deficient in its operation of any such program.

Cause

According to the Interim Chief Officer of Program Integrity and Finance and the Director of Child and Adult Care Food Program (CACFP) and SFSP, a secretary position within the

operational scope of a SFSP sponsor is not considered an official responsible person having a direct operational control. Both the Interim Chief Officer of Program Integrity and Finance and the Director of CACFP and SFSP did not think this was an issue for the department even though federal regulations specifically prohibited the department from entering into the agreement with those involved in uncorrected serious deficiencies.

Effect

When the department approves sponsors who have demonstrated their inability to administrate SFSP within the federal requirements, there is an increased risk of subrecipients' noncompliance and improper reimbursements to those subrecipients. In addition, the risk of noncompliance, errors, fraud, waste, and abuse increases when contracting with previously disqualified organizations, officers, and employees.

Recommendation

The Commissioner and the Director of CACFP and SFSP should develop stronger preventive and detective controls over the Summer Food Service Program for Children application approval process. These controls should include procedures to verify names of officers and employees to ensure those officers and employees have not been previously disqualified from the program.

Management's Comment

The Department does not concur.

As noted in the finding's criteria, *Title 7 of the Code of Federal Regulations* Section 225.11(c) was stated in part, the Department quotes the same section in part with one additional sentence that was excluded from the finding.

Except as specified below, the State agency shall not enter into an agreement with any applicant sponsor identifiable through its corporate organization, officers, employees, or otherwise, as an institution which participated in any Federal child nutrition program and was seriously deficient in its operation of any such program. The State agency shall terminate the Program agreement with any sponsor which it determines to be seriously deficient. However, the State agency shall afford a sponsor reasonable opportunity to correct problems before terminating the sponsor for being seriously deficient. . . .

The regulation allows the sponsor a reasonable opportunity to correct problems before being terminated. In order, to understand how this opportunity to correct problems is defined, an explanation of the Serious Deficiency Process is necessary. It should be noted that the sponsor has appeal rights as described under *Title 7 of the Code of Federal Regulations* Section 225.13 for every step described below.

Serious Deficiency (SD)

A Serious Deficiency (SD) Report was issued on February 17, 2016, to the sponsor noted in the finding based on the Department's monitoring results naming the sponsor and the sponsor's President as the Responsible Parties and Individuals (RPIs) for the SD. The sponsor then has the opportunity to appeal the findings but not the determination of SD or to submit a corrective action plan. The authorization for this action is referenced in the sponsor's provider agreement and in *Title 7 of the Code of Federal Regulations* Section 225.11(c).

Temporary Deferment of the Notice of Serious Deficiency

If the corrective action plan was submitted and approved by the Food Program Management, a letter of "Temporary Deferment of the Notice of Serious Deficiency for Summer Food Service Program" is issued. The deferment remains in effect until the Department performs another monitoring review of the sponsor. If the subsequent review finds the sponsor to be seriously deficient, then a Notice of Proposed Termination and Disqualification is issued. Once again, pursuant to federal regulations, the sponsor can appeal the notice or submit a corrective action that is approved by the Department and a Temporary Deferment of the Notice of Serious Deficiency is issued.

Notice of Proposed Termination and Disqualification (NPTD)

If the sponsor has not appealed, lost their appeal or failed to submit a corrective action that was approved by the Department, a "Notice of Proposed Termination and Disqualification for Summer Food Service Program" is issued. The notice references the date of the original SD, describes the sponsor's failure to provide and acceptable corrective plan and/or submission of the overpayment noted in the SD. The sponsor noted in this finding was issued a notice on June 17, 2016. Pursuant to federal regulations, the sponsor can appeal the notice or submit a corrective action that is approved by the Department who is issued a Temporary Deferment of the Notice of Serious Deficiency. The authorization for this action is referenced in the sponsor's provider agreement and in *Title 7 of the Code of Federal Regulations* Section 225.11(c).

Notice of Termination and Disqualification (NTD)

The "Notice of Termination and Disqualification of Summer Food Service Program" serves as notice to the sponsor that the Department is terminating their agreement. NTD references the sponsor's failure to provide and acceptable corrective plan and/or submission of the overpayment noted in the SD. The sponsor noted in this finding was issued a notice on September 23, 2016. The authorization for this action is referenced in the sponsor's provider agreement and in *Title 7 of the Code of Federal Regulations* Section 225.11(c).

Based on compliance with federal regulations, the Department adhered to *Title 7 of the Code of Federal Regulations* Section 225.11(c) that states, "... the State agency shall afford a sponsor reasonable opportunity to correct problems before terminating the sponsor for being seriously deficient ..." from the date the SD was issued from February 17, 2016, until the NTD was issued on September 23, 2016, which includes affording the sponsor appeal rights under *Title 7 of the Code of Federal Regulations* Section 225.13.

Based on these requirements, only after September 23, 2016, could SFSP Program Management deny future application of persons associated with the terminated sponsor. The SFSP 2016 application deadline ended prior to the September 23, 2016, termination date; therefore, the Department did comply with the criteria noted in the finding.

Additionally, the Department does not concur that the interpretation of the regulation extends to all employees of a terminated sponsor, but rather only the RPIs referenced in the Department's SD, NPTD and NTDs. Allowing such a strict interpretation of this regulation upon all employees of a terminated sponsor would significantly curtail the number of participating sponsors and directly and adversely affect the ability of the Department to meet the objectives of the program to provide nutritious food to low-income children. The Department will seek clarification on the interpretation of this regulation with the United States Department of Agriculture, Food Nutrition Service.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

Based on the CFR the department should not have entered into an agreement with any applicant sponsor that was identified as having participated in any federal child nutrition program and was seriously deficient in its operation of any such program. The 2016 sponsor's President was employed by a former sponsor that, during the previous summer, was cited by the department with a serious deficiency in its operations of the Summer Food Service Program for Children. At the time the department approved the 2016 applicant sponsor, the former sponsor had not corrected the deficiency.

We agree that the department should seek clarification on the interpretation of this regulation with the United States Department of Agriculture, Food Nutrition Service.

Finding Number	2016-031
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	2010IN109945, 2012IN109945, 2014IN109945, 2015IN109945, and 2016IN109945
Federal Award Year	2010, 2012, and 2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-032
Pass-Through Entity	N/A
Questioned Costs	N/A

For the third year, the Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and documented 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.

SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our SFSP meal observation testwork for the 2016 program crossed two state fiscal years.

- 2016 (July 1, 2015 through June 30, 2016 with the month of June falling during our review period); and
- 2017 (July 1, 2016, through June 30, 2017 with the month of July falling during our review period).

Condition

We selected 34 sponsors from the population of 73 agencies the department approved for the 2016 program using a combination of systematic, haphazard, and random selection methods. For

each sponsor, we haphazardly selected a feeding site for a meal service observation. For 2 sponsors, due to noncompliance we selected an additional feeding site for meal observation, for a total of 36 feeding sites.

We observed a meal service at the 36 SFSP feeding sites for the 34 different sponsors selected for our testwork. Overall, we noted meal service noncompliance at 20 of 36 feeding sites visited (56%). At these 20 sites, we observed meal service noncompliance ranging from 1 to 5 SFSP violations per feeding site. We observed the following types of noncompliance:

- 5 sponsors served and documented incomplete first meals;
- 3 sponsors served and documented incomplete second meals;
- 9 sponsors served meals outside approved times;
- 3 sponsors did not use the daily meal count form to document the number of meals served;
- 3 sponsors allowed children to consume meals off-site;
- 1 sponsor documented meals available for meal service instead of meals actually served; and
- 1 sponsor served meals as a mobile feeding sponsor and did not serve meals at approved feeding sites.

As reported in findings in the two prior audits, we reported that sponsors had not complied with established federal regulations required for meal service at feeding sites. Management did not concur with the most recent prior finding and restated in discussions during our current audit fieldwork that DHS management was not directly responsible for the sponsors' noncompliance with SFSP requirements. Based on management's prior comment and comments during this audit, DHS management indicated that noncompliance occurring at feeding sites (and ultimate corrective action) is the direct responsibility of the sponsors, who are responsible for training and monitoring their feeding sites to ensure their feeding site staff serve meals in accordance with SFSP guidelines. While the sponsors are responsible for training and monitoring their feeding sites, as the pass-through entity, DHS management cannot pass the "ultimate responsibility" for federal compliance to the subrecipients. For more information about management's responsibility, see Finding 2016-019.

Risk Assessment

Another element of our testwork involved reviewing DHS' November 2015 Financial Integrity Act Risk Assessment. Even though this issue was reported in the prior-year finding, we determined that management, once again, did not include in the assessment the specific risks and mitigating controls associated with sponsors not following federal regulations while serving meals.

Criteria

See Table 1 for applicable noncompliance criteria.

Table 1: Meal Service Observations Criteria

Type of Noncompliance	Applicable Criteria from the <i>Summer Food Service Program 2016 Administrative Guidance for Sponsors</i> ³⁹
Sponsors served and documented incomplete breakfasts. and Sponsors served and documented incomplete lunches.	For a breakfast to be reimbursable, it must contain • one serving of milk (whole, low-fat, or fat-free); • one serving of a vegetable, fruit, or full-strength juice; and • one serving of a grain. An optional serving of meat or meat alternate may also be served. (page 68) For a lunch or supper to be reimbursable, it must contain • one serving of milk (whole, low-fat, or fat-free); • two or more servings of vegetables, fruits, or full-strength juice; • one serving of a grain; and • one serving of meat or meat alternate. (page 68)
Sponsors served meals outside approved times.	Meals served outside of approved times or dates of operation are not reimbursable. (page 140)
Sponsors did not use a daily meal count form to document the number of meals served.	Sponsors must maintain complete records of all costs and meals claimed for reimbursement (page 136), as well as daily meal count sheets (page 78).
Sponsors allowed children to consume meals off-site.	Meals consumed off-site are not reimbursable. (page 140)
Sponsors documented meals available for meal service instead of meals actually served to children.	Sponsors may claim reimbursement only for meals meeting SFSP requirements. Reimbursement may not be claimed for meals that were not served. (page 141)
Sponsors served meals at unapproved feeding sites.	Sponsors may claim reimbursement only for meals meeting SFSP requirements. Reimbursement may not be claimed for meals served at sites that have not been approved by state agencies. (page 140)

Cause

Management of the department has not accepted full responsibility as the pass-through entity for this federal program as evidenced by their nonconcurrence with the prior audit finding and their lack of effort to achieve corrective action involving the subrecipients' continued noncompliance.

³⁹ The *Summer Food Service Program 2016 Administrative Guidance for Sponsors* is a publication of federal requirements set forth by the U.S. Department of Agriculture's Division of Food and Nutrition Service, which administers SFSP.

In an effort to determine the cause of the noncompliance at the sponsor level, we discussed the errors with the sponsors and feeding site personnel and were given the explanations outlined in Table 2.

Table 2: Reasons for Noncompliance

Type of Noncompliance*	Sponsors	Reasons of Noncompliance
Sponsors served and documented incomplete first meals.	Sponsor 2	Sponsor 2's Club Director overlooked that one child did not receive a complete meal; she marked a child as a full meal when the child actually did not take an orange juice.
	Sponsor 3	Sponsor 3's Site Director counted one incomplete meal as a full meal.
	Sponsor 7	Sponsor 7's Kitchen Supervisor stated that she did not receive any training for the program and was unaware of what components should be served in a complete reimbursable meal.
	Sponsor 9	Sponsor 9's Site Supervisor stated that the site was approved for the offered-versus-served option when in fact the sponsor was not approved for such option before we observed the meal service.
	Sponsor 18	Sponsor 18's Site Manager overlooked that one required component was not delivered from the sponsor with the meals.
Sponsors served and documented incomplete second meals.	Sponsor 1	Sponsor 1's Kitchen Supervisor overlooked that children were not receiving complete second meals. Sponsor 1's Kitchen Supervisor stated it was an unintentional mistake.
	Sponsor 5	Sponsor 5's Day Camp Manager stated that the violations were due to kitchen staff not being aware that all components must be available for prepared meals.
	Sponsor 18	Sponsor 18's Site Manager overlooked that one required component was not delivered from the sponsor with the meals.
Sponsors served meals outside approved times.	Sponsor 4	Sponsor 4's Administrator was new to the 2016 program and was unsure of how to change the approved serving times.

Type of Noncompliance*	Sponsors	Reasons of Noncompliance
	Sponsor 8	Sponsor 8's Site Supervisor and Monitor were unaware of the department-approved feeding times.
	Sponsor 10	Sponsor 10's Site Supervisor served meals outside the approved times due to a dance class that conflicted with the meal service on the day we observed the meal service.
	Sponsor 11	Sponsor 11's Site Supervisor stated that his lack of understanding of the program requirements caused him to serve meals outside the approved times.
	Sponsor 13	Sponsor 13's Site Supervisor stated that the participants had completed their internship duties early that day, and, as a result, they started the feeding earlier than normal.
	Sponsor 14	Sponsor 14's Summer Coordinator stated that the sponsor told her she could change the serving time. Sponsor 14's Financial Administrator stated she was not aware that the Summer Coordinator had changed the feeding time.
	Sponsor 15	Sponsor 15's Site Supervisor explained that the approved serving times were erroneously stated on the site application.
	Sponsor 16	Sponsor 16's Site Supervisor stated that he was unaware of approved serving times at the site.
	Sponsor 17	Sponsor 17's Supervisor of Food Services assumed that she could change the serving times prior to the department's approval.
Sponsors did not use daily meal count forms to document the number of meals served.	Sponsor 6	Sponsor 6's Site Supervisor did not bring a daily meal count form with her to the site.
	Sponsor 7	Sponsor 7's Kitchen Supervisor stated that she did not receive a daily meal count form from Sponsor 7's Program Assistant Director.

Type of Noncompliance*	Sponsors	Reasons of Noncompliance
	Sponsor 12	Sponsor 12's Senior Program Director could not explain why Sponsor 12's Camp Director, who served the meals, did not use the daily meal count form on the day we observed the meal service.
Sponsors allowed children to consume meals off-site.	Sponsor 7	Sponsor 7's Kitchen Supervisor was unaware that the children must consume SFSP meals on-site. Sponsor 7's Kitchen Supervisor stated that she did not receive SFSP training.
	Sponsor 8	Sponsor 8's Director explained that Sponsor 8's Site Supervisor used his judgement to let the children take their meals off-site due to rain at the times the meals were served. Sponsor 8's Director stated that Sponsor 8's Site Supervisor could have used a tent to provide shelter but he did not.
	Sponsor 9	Sponsor 9's Executive Director stated that she received inaccurate and/or incomplete information from the department on the procedures pertaining to allowing children to consume their meals off-site on days with high heat indexes.
The sponsor documented meals available for meal service instead of meals actually served to children.	Sponsor 11	Sponsor 11's Site Supervisor stated that his lack of understanding of the program requirements caused him to claim meals available for meal service instead of meals actually served.
The sponsor served meals at unapproved feeding sites.	Sponsor 20	Sponsor 20 explained that Sponsor 20's Driver decided to stop serving at the approved feeding site due to a lack of children's participation. Sponsor 20 added that the sponsor found better success with the program delivering meals door to door. Sponsor 20's Director was aware that this was not in compliance with SFSP regulations.

*We observed the instances of meal service noncompliance at the sponsors' feeding sites.

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, DHS will continue to reimburse sponsors for unallowable expenditures resulting from errors, noncompliance, fraud, waste, and abuse.

Without adequate training and sufficient monitoring efforts, the department cannot ensure that sponsors and feeding site personnel comply with federal regulations. 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. We followed up to ensure that sponsors appropriately addressed the instances of noncompliance during the claim preparation process and claimed only the allowable meals (those in compliance with meal service requirements) on the meal reimbursement claim. See finding 2016-029 for issues noted during our follow-up review.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in Title 2, *Code of Federal Regulations* (CFR), Section 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case

of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).

- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner and the Director of Child and Adult Care Food Program and SFSP should accept their responsibility as the pass-through entity, as described in federal regulations, and should pursue actions afforded to them as such to ensure that both subrecipients and the department comply with the federal requirements. Specifically, management should take a proactive and aggressive approach in implementing effective controls to ensure sponsors and their staff comply with the federal meal service requirements. If subrecipients continue to serve meals and report meals that are not in compliance with federal regulations management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management should also include the risks and corresponding controls associated with SFSP subrecipients not complying with the program requirements in the department's risk assessment.

Management's Comment

The Department concurs in part.

The Department agrees that subrecipients' personnel at 20 feeding sites did not fully comply with established federal documentation regulations. Similar errors were also noted in the Department's External Program Review monitoring reports. Subrecipients must submit to the SFSP program management corrective action plans to remedy the issues noted in the monitoring reports. If the corrective action plans were not submitted or the errors continue to occur, the subrecipients are subject to termination procedures.

The Department does not concur that management of the Department has not accepted full responsibility as the pass-through entity for the SFSP program. The SFSP program management is responsible for training all SFSP subrecipients' personnel, and did so. The SFSP in-person training to SFSP subrecipients covers all meal service and documentation requirements, the training is also available online to all SFSP applicants. Training is required for all returning subrecipients that exhibited significant weaknesses in the program operation the previous year. The online training modules that cover meal service and documentation requirements are available on the Department's website which is available to the public. Additionally, the SFSP program management has created SFSP Daily Meal Count Review Training and SFSP Site Supervisor Training which is available online to all SFSP subrecipients' personnel.

The Department's External Program Review Division staff select and monitor Sponsors in accordance with *Title 7 of the Code of Federal regulation Section 225* applicable parts, Public Chapter 798, and based on the following criteria: if the sponsor is new to the program, had a prior year serious deficiency, was not monitored in the last three years, if the provider was

referred to External Program Review Division as part of a complaint, or data obtained from TIPS.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Finding Number	2016-032
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	2010IN109945, 2012IN109945, 2014IN109945, 2015IN0109945, and 201616N109945
Federal Award Year	2010, 2012, 2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-030
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services did not pay Summer Food Service Program cash advances timely according to 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). 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.

SFSP sponsors may request advance payments for either operating or administration costs, or both to cover their total program costs. As required by federal regulations, when a sponsor needs to request advances for either operating or administrative costs, it must make separate requests in the department's Tennessee Information Payment System (TIPS). Sponsors estimate the amount of advance needed for operating or administrative costs, and, once the requests are entered into TIPS, DHS Food Program management review the requests and other available data to determine the appropriateness of the request. DHS then either accepts, declines, or reduces the advance if DHS feels the request is higher than what is needed to administer the food program. The department ultimately provides the advances and later nets future reimbursement claims submitted by the sponsor.

Condition

We tested the entire population of 42 monthly cash advances made to 28 SFSP sponsors for the summer 2016. Based on our testwork, we found that DHS SFSP management did not pay 5 of 42 cash advances (12%) within the 30-day requirement as of the sponsor's request for advance. Specifically, we found that

- management did not pay 1 June cash advance within 30 days of the sponsor's approved application date; and
- management did not pay 4 July advances by the July 15 deadline.

Management made these advances between 3 and 4 days late.

We reported this condition as a finding in the prior audit. Management concurred in part with the finding and incorporated the calculation and payment of cash advances into the approval process through the newly implemented Tennessee Information Payment System (TIPS) which helped the department correct other conditions noted in the prior audit finding; however, we still found that controls were not yet sufficient to prevent the noncompliance noted in this finding. We tried to evaluate management's controls over the approval and cash advance process to identify the nature of the control weakness that allowed noncompliance; however, management could not provide any additional information to help us make that determination. The Fiscal Director did state that the cash advances cannot be paid until the Program Director of SFSP approves the advances for payment, thus, without a control in place to ensure timeliness of the approval and payment of the cash advance, the risk of noncompliance is increased.

Criteria

According to Title 7, *Code of Federal Regulations*, Part 225, Section 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.

Since DHS incorporated the cash advance into the sponsor application, we inquired with the U.S. Department of Agriculture's Food and Nutrition Service to determine when the 30-day period should start. Based on communication with the Food and Nutrition Service, since DHS should not pay the sponsor until they have an agreement with the sponsor, the 30-day period should begin on the date when DHS approved the application.

In addition, 2 CFR 200.62 states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity [DHS] designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate

compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Cause

When we discussed the errors with the Director of Child and Adult Care Food Program/SFSP, she stated that the cash advances were not paid within 30 days of the sponsor's request or approved application date because of "programmatic verification and new system processes" with TIPS.

Effect

Without effective internal control, the department's risk of noncompliance is increased. Specifically, when the department makes late advance payments to sponsors, there is an increased risk that sponsors will not receive the money needed to operate the program for the month.

Recommendation

The Commissioner of the Department of Human Services and SFSP program staff should develop strong controls to track advance payments to ensure that they comply with federal regulations.

Management's Comment

The Department concurs.

The Department concurs that 5 SFSP Sponsors advance requests were paid three to four days late.

The Department's utilization of the Tennessee Information Payment System (TIPS) allows the food program management staff to more effectively track advance payment requests. The food program management will continue to monitor staff compliance with the 30-day advance payment to mitigate the incidents of untimely advance payments.

Finding Number	2016-033
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	201616N109945
Federal Award Year	2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2015-034
Pass-Through Entity	N/A
Questioned Costs	FY 2017: \$26,005

As noted in the prior audit, the Department of Human Services’ program staff did not ensure that sponsors obtained individual eligibility application forms, ensure the forms were complete, document the eligibility determination process, and correctly determine participant eligibility, resulting in \$26,005 of questioned costs

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. According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 328(a), “the non-Federal entity (DHS) is responsible for oversight of the operations of the Federal award supported activities (sponsors). The non-Federal entity must monitor its activities under Federal awards to assure compliance with applicable Federal requirements and performance expectations are being achieved. Monitoring by the non-federal entity must cover each program, function or activity.”

Sponsors that operate camps are reimbursed only for those enrolled children who meet the free and/or reduced price eligibility requirements. 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 881 individuals who were served meals at 10 camp feeding sites and 2 closed-enrolled, non-needy area feeding sites associated with 9 sponsors that were approved to participate in the 2016 SFSP (May 2016 – September 2016). In order to test the sponsors’ compliance in terms of individual eligibility requirements, we selected a random, nonstatistical

sample of 60 individuals and reviewed the income eligibility application forms. We found the following:

- A. sponsors did not obtain the required individual income eligibility application forms;
- B. sponsors did not ensure that individual income eligibility application forms were complete and accurate;
- C. sponsors did not adequately document the eligibility determination for children receiving meals; and
- D. a sponsor did not correctly determine an individual's eligibility for participation.

Condition A

Required individual income eligibility application forms were not obtained

Based on testwork performed, we noted that for 20 of 60 individuals selected (33%), two sponsors did not collect individual income eligibility application forms. Specifically, we noted that one sponsor (Sponsor 1) did not collect three individual income eligibility application forms and another sponsor (Sponsor 2) did not collect 17 individual income eligibility application forms for individual participants. Both sponsors indicated on the approved site applications that income eligibility applications would be the method used to verify eligibility.

In addition to the errors noted in the sample, we also found that the two sponsors did not obtain individual applications for any participants at two feeding sites. A total of 261 individuals participated in the feeding sites (Sponsor 1 had 40 participants, and Sponsor 2 had 221), which included the 20 individuals noted as errors in the sample. Since sponsors did not obtain the required application forms, we could not determine if the participants met the free and/or reduced-price eligibility requirements; therefore, we questioned a total of \$26,005 that DHS reimbursed to the two sponsors for all meals served at the two feeding sites.

Criteria

According to the SFSP 2016 *Administrative Guidance for Sponsors*, p. 19,

Unlike open, restricted open and closed enrolled sites, sponsors of residential and non-residential camps do not have to establish area eligibility. However, they must collect and maintain individual household applications. Camps are reimbursed only for those enrolled children who meet the free and/or reduced-price eligibility standards . . .

According to the SFSP 2016 *Administrative Guide for Sponsors*, p. 30,

As part of the application process, sponsors of closed enrolled sites must provide the State agency with: A statement of how they intend to document SFSP eligibility, using one of the methods listed. . . .

Additionally, Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book), Section 13.01, states, “Management should use quality information to achieve the entity’s objectives.” Section 13.02 states, “Information requirements [should] consider the expectations of both internal and external users.”

Cause

The Director for Sponsor 1 stated that he did not collect the eligibility application forms because a member of the DHS staff, whose name he could not recall, stated that it was acceptable to use school data and area eligibility⁴⁰ to determine if participants were eligible; however, the sponsor indicated on its DHS-approved application that income applications would be the method used to determine participants’ SFSP eligibility.

The Financial Administrator for Sponsor 2 stated that income eligibility application forms were not obtained because the feeding site was in an area-eligible location; however, DHS approved the feeding site as a closed-enrolled feeding site in a non-needy area, which required the sponsor to obtain the application forms. In addition, the sponsor indicated on its DHS-approved site application that the income applications would be the verification method used. The Financial Administrator stated the feeding site type and the statement that income application forms would be used to determine eligibility were selected in error when the sponsor applied for the program.

Questioned Costs

Total questioned costs are \$26,005. SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our audit for SFSP crossed two state fiscal years. The meals were served throughout the summer 2016 program, and reimbursement to the sponsor was made during state fiscal year 2017.

Sponsor	Questioned Costs
Sponsor 1	\$4,755
Sponsor 2	\$21,250
Total	\$26,005

Condition B

Income eligibility application forms were filled out inaccurately or incompletely

Based on testwork performed, on the 40 applications available for review (of the 60 originally selected, 20 were not obtained, as noted in condition A), we noted 2 of 40 individuals’ application forms tested (5%) were incomplete. Specifically, one sponsor (Sponsor 3) did not ensure the adult household member listed all household members’ respective incomes on two income eligibility application forms and did not ensure that the adult household member dated one of the forms.

⁴⁰ In order to be area eligible, the feeding site must be located in an area where at least 50 percent of the children residing in that area are eligible for free or reduced-price school meals under the National School Lunch Program and the School Breakfast Program.

Criteria

According to Title 7, 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: . . .

- (iv) The income received by each household member identified by source of income;
- (v) The signature of an adult household member;
- (vi) The date the application is completed and signed.

Cause

In an effort to determine the actual cause of the errors noted, we contacted the sponsor's Summer Camp Director, who stated that she asked the household member to provide the missing income amounts, and she added the amounts in the "official use" section of the form to verify income eligibility. The director also stated that she overlooked adding the information to the household's part of the form and that she did not notice the date was missing on one form.

Condition C

Sponsors did not adequately document individual eligibility determination

Based on testwork performed, we noted that for 23 of 60 individuals sampled (38%), sponsors did not adequately document the individual eligibility determination in the sponsor's section of the application form during the verification process. Specifically, we noted the following:

- a. two sponsors (Sponsor 1 and Sponsor 2) did not collect 20 individual eligibility forms to document the their eligibility determination (see condition A above);
- b. two sponsors (Sponsor 3 and Sponsor 4) did not mark the household member's income frequency selection boxes (e.g., Total income Per: Week, Every 2 Weeks, Twice a Month, Month, Year) in the "For Official Use" box on two Income Eligibility Application forms; and
- c. one sponsor (Sponsor 5) did not use the USDA-approved form provided by DHS, and the form the sponsor used instead did not contain the required section for the documentation and certification of the individual's eligibility.

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.

According to the *2016 Administrative Guidance for Sponsors*, p. 32,

The information collected on the household application includes household size and income. . . . Sponsors may also use alternate forms developed either by themselves or the State agency, as long as the forms request the same information as is found on the USDA prototype household application. Forms developed by sponsors must be approved by the State agency before use.

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 3's Program Superintendent and Sponsor 4's Summer Camp Director both explained that although they confirmed the household member's income frequency, they overlooked marking the information on the form.
- b. Sponsor 5's Supervisor of Nutrition stated that they did not use the USDA-approved form provided by DHS because they were under the impression that their local form was acceptable to use.

For Sponsor 1's and Sponsor 2's explanation, see the cause to condition A above.

Condition D

Individual not eligible for SFSP meal reimbursement

Based on testwork performed on the 40 applications available for review (of the 60 originally selected, 20 were not obtained, as noted in condition A), we noted that for 1 of 40 individual income application forms tested (3%) the individual was not eligible for SFSP meal reimbursement because the family income exceeded the threshold for free and reduced meals.

Criteria

According to the *SFSP 2016 Administrative Guidance for Sponsors*, p.19,

Camps are reimbursed only for those enrolled children who meet the free and/or reduced-price eligibility standards.

Cause

Based on discussion with Sponsor 5's Supervisor of Nutrition, although individual income application forms were collected, they were not used to determine which meals were claimed for reimbursement. The Supervisor stated that the camp was held in an area eligible location and after a conversation with a DHS representative, whose name she could not recall, she decided that area eligibility would be used to claim meals rather than income eligibility. Based on review of the sponsor's DHS-approved application, the sponsor was approved to use the individual

income application forms to determine the participants' eligibility rather than the area eligible location criteria.

We also discussed the four issues noted above with DHS management, who stated that the issues identified were the responsibility of the sponsors and DHS provided training to the sponsors; however, as the pass-through entity, DHS is ultimately responsible for ensuring sponsors comply with the individual eligibility regulations. According to Title 7, CFR, Part 225, Section 3, "Within the State, responsibility for the administration of the Program shall be in the State agency." Additionally, according to Title 2, CFR, Part 200, Section 62, "the department is responsible for designing internal controls over compliance requirements for Federal awards that provide reasonable assurance regarding the achievement of . . . compliance with Federal statutes, regulations, and the terms and conditions of the federal award to the sponsors."

Risk Assessment

Even though these eligibility issues were reported in the prior audit, the DHS November 2015 Financial Integrity Act/Risk Assessment did not include the risks associated with sponsors not obtaining complete information on income eligibility application forms, not properly documenting eligibility determination and incorrectly determining participants' eligibility.

Effect

When DHS and camp sponsors do not implement adequate controls in the eligibility determination process, the risk of reimbursing organizations for meals served to ineligible participants is increased. Also, when individual eligibility is not properly documented, the likelihood that reimbursement to a sponsor will not be in accordance with federal regulations is increased.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioner should ensure that the Director of CACFP/SFSP develops and implements adequate controls over the Summer Food Service Program for Children. These controls should include

- procedures to ensure camp sponsors obtain individual income application forms;
- effective training to ensure that camp sponsors adequately verify and document information obtained from individuals for eligibility purposes for completeness and accuracy;
- procedures to ensure that camp sponsors use appropriate USDA-approved forms that comply with federal guidelines to determine eligibility of individuals for program meals; and
- reasonable assurance that sponsors have developed an effective process for determining individual eligibility at the sponsoring agencies.

If subrecipients continue to not maintain individual eligibility forms or incomplete eligibility forms, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 2 CFR 200.338.

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

The Department concurs in part.

The Department concurs that both sponsors indicated that income eligibility application would be the method used to determine participants' SFSP eligibility.

The Department does not concur with the questioning the cost of \$21,250 for sponsor 2 because as noted in the finding the feeding site was verified as area-eligible through the United States Department of Agriculture, Food Nutrition Service (FNS) website.

The Department concurs that sponsor 1 was not located in an area-eligible area.

The Department's SFSP program staff provides annual training for all SFSP subrecipients that included, but not limited to, information on:

- Accurately determining participant eligibility;
- Requirements for maintaining complete and accurate eligibility applications; and
- Required online training, including participant eligibility for closed enrolled sites and camps.

Additionally, supplemental training material is available online and SFSP subrecipients can request individualized training and technical assistance to address specific areas of need.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

According to 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.

Specifically, for Sponsor 2 management originally approved the sponsor to operate based on the income application methodology. Management did not provide evidence at the time of our audit fieldwork that the original approved methodology was not applicable.

Finding Number	2016-034
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945 and 201616N109945
Identification Number	
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	FY 2016: \$667,085 FY 2017: \$29,169

The Department of Human Services did not ensure that Summer Food Service Program for Children sponsors accurately claimed meals served to children, resulting in \$696,254 of questioned costs

Background

The U.S. Department of Agriculture funds the Summer Food Service Program for Children (SFSP) through the Child Nutrition Cluster. The Department of Human Services (DHS) administers SFSP on the state level and is responsible for providing subrecipients, also known as sponsors, with program requirements, training, and other assistance to gain reasonable assurance that sponsors comply with federal regulations and are knowledgeable of federal requirements. In order to receive reimbursements for meals served to children, sponsors must comply with the federal and state requirements while administering the program. DHS requires sponsors to count meals served to children at a point-of-service and document this number of meals served on a daily meal count form.

Sponsors are responsible for ensuring numbers documented on the daily meal count forms are accurate and reflect the number of meals actually served to eligible children. Staff serving meals and documenting the number of meals on the daily meal count form self-certify the accuracy of the information by signing and dating the meal count forms. Sponsors then process the meal count information by submitting the number of meals claimed for reimbursement for a claim period to the department. Sponsors are required to maintain supporting meal count documentation for all reimbursement claims for a minimum of three years.

The majority of the feeding sites sponsored by SFSP are classified as “open” feeding sites and include parks, schools, churches, community centers, housing projects, libraries, playgrounds, pools, and other public sites where children gather or are attracted to various activities. Actual daily attendance at open feeding sites varies because children come to these sites at their will and do not participate in the program on an enrolled-concept basis, as in camps, where daily

attendance can be more predictable. In addition, factors such as extreme weather and holidays affect actual participation throughout the duration of the summer food program at the open sites.

Condition

For our reimbursement claim review testwork, we selected a nonstatistical, random sample of 60 claim reimbursement transactions from the 148 transactions that the department paid out to SFSP sponsors during fiscal year 2016. The purpose of our testwork was to verify whether sponsors maintained proper support for reimbursement payments received. Our review involved inspection of sponsors' daily meal count documentation. We also followed up on 25 of our meal service observations, both from the 2015 and the 2016 programs, where we observed at least one instance of meal service noncompliance by a sponsor to ensure sponsors ultimately filed reimbursement claims for the correct number of meals. Lastly, we also reviewed the Audit Services section's monitoring reports for those sponsors that the department monitored during the 2015 program to determine types and seriousness of deficiencies noted by Audit Services' monitors during their monitoring reviews.

We applied analytical procedures in our review of sponsors' supporting meal count documentation and in our review of Audit Services' working papers, and we identified 13 sponsors whose meal count documentation exhibited patterns in which sponsors' staff claimed at least one of the following:

- the same number of meals served each day for a period of time;
- total meal counts divisible by five, suggesting rounding of counts; or
- higher participant attendance days (and thus higher meal counts) before and after a day in which we or Audit Services physically observed and documented lower participant attendance.

See Table 1 for details of the type of pattern each sponsor exhibited.

When sponsors claim the same number of served meals each day at feeding sites or claim meal counts for each day which are divisible by five, sponsors in effect are stating that the same number of children must have been present at these sites and received SFSP meals on a daily basis. Given that actual participation is unlikely to be exactly the same each day at public open sites, we are skeptical that these sponsors have submitted claims based on the accurate number of meals served to children at these sites, as required by SFSP regulations. Also, the lower documented attendance records on days where either we or department monitors observed the meal service, as compared to higher attendance records for days that were not observed, strongly suggests that sponsors are not claiming an accurate number of meals served.

The Division of Food and Nutritional Services (FNS) has recognized these meal claiming patterns as "red flags" in its *2016 State Agency Monitor Guide*. When red flags are present, the guide states that agencies should address sponsors who exhibit these patterns. We found no evidence that program management or staff had recognized or reacted to these red flags. Management is responsible for monitoring subrecipients; however, as noted in finding 2016-019,

their monitoring process is not sufficient. Because of these red flag patterns and because the department had not followed FNS recommendations, we could not satisfy our audit objectives that the sponsors' supporting documentation was accurate. We questioned \$696,254 paid to the sponsors for meals claimed at the feeding sites that exhibited red flag patterns.

Table 1
Details of Questionable Reporting

Sponsor	Reviewed Months	Pattern of Claiming the Same Number of Meals	% of Sponsors' Operating Sites That Claimed the Same Number of Meals for the Review Month(s)	Pattern of Lower Participation on Meal Observation Days Than on Non-observation Days
Sponsor 1	June 2015 and July 2015	Yes	91%	Yes
Sponsor 2	June 2015	Yes	93%	Yes
Sponsor 3	June 2015	Yes	25%	Yes
Sponsor 4	June 2016 and July 2016	Yes	67%	Yes
Sponsor 5	July 2015 and August 2015	Yes	100%	Yes
Sponsor 6	July 2015	Yes	89%	Yes
Sponsor 7	June 2015 and July 2015	Yes	66%	Yes
Sponsor 8	June 2015 and July 2015	Yes	62%	Yes
Sponsor 9	August 2015	Yes	100%	***
Sponsor 10	*			Yes
Sponsor 11	*			Yes
Sponsor 12	*			Yes
Sponsor 13	**			Yes

* We reviewed claims submitted by these sponsors but did not observe the pervasive pattern of claiming the same number of meals each day.

** We did not review claims submitted by the sponsor, but we included this sponsor on our list because during the 2015 program the Director of Sponsor 6 also oversaw the summer food program for Sponsor 13.

*** Neither we nor Audit Services observed meal service at Sponsor 9's sites for the 2015 program. Sponsor 9 did not participate in the 2016 program.

Risk Assessment

We reviewed DHS' November 2015 Financial Integrity Act Risk Assessment and determined that management listed unallowable costs charged to a federal program as a risk; however, the department did not mitigate its risk by establishing proper oversight and preventive controls.

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.

In addition, according to the *Summer Food Service Program 2016 Administrative Guidance for Sponsors*,

Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for: . . . Meals that were not served.

Lastly, the *2016 Sponsor's Monitor Guide* for SFSP states,

If the number of meals delivered is the same as the number served each day, or the same number of meals is recorded each day, this may mean that no one is actually counting the number of meals received or served.

Cause

The most likely causes for sponsors claiming the same number of meals, claiming meal numbers divisible by five, and claiming higher participation attendance on days that were not observed by external parties include

- sponsors' attempts to maximize their profits;
- sponsors' attempts to avoid responsibility for taking losses for meals prepared but unserved;
- sponsors' knowledge of DHS's weak preventive controls since the sponsor is only required to self-certify the number of meals served on the daily meal count forms; and
- sponsors' knowledge that DHS has not questioned their claim reimbursement requests unless a sponsor is selected for a monitoring review.

Effect

When the department does not follow FNS guidance to identify and react to red flags related to meal patterns, does not implement adequate controls to prevent sponsors from overclaiming meals, or does not quickly detect the overclaims when they occur, there is an increased risk of reimbursing sponsors for unallowable meals due to error, noncompliance, fraud, waste, or abuse.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;

- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

According to 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 a total of \$696,254⁴¹ for meals at the sponsors' feeding sites where the same number of meals or meals divisible by five were served on most days. Because our review crossed two state fiscal years, we questioned costs in each applicable fiscal year. See Table 2 for questioned costs by sponsor and fiscal year. We did not question costs for the pattern of lower actual participation on days we or Audit Services performed a meal observation; however, we would like to note that some of these sponsors were also identified in the other two meal pattern problems.

⁴¹ We calculated the amount of questioned costs by reviewing the meal count documentation provided to us by sponsors during our claim review testwork prior to any disallowances, either by us or Audit Services' monitors.

Table 2
Summary of Questioned Costs by Sponsor and Fiscal Year

Sponsor	State Fiscal Year 2016 Questioned Costs	State Fiscal Year 2017 Questioned Costs	Overall Questioned Costs
Sponsor 1	\$21,874	\$0	\$21,874
Sponsor 2	\$99,165	\$0	\$99,165
Sponsor 3	\$6,615	\$0	\$6,615
Sponsor 4	\$0	\$29,169	\$29,169
Sponsor 5	\$138,302	\$0	\$138,302
Sponsor 6	\$35,609	\$0	\$35,609
Sponsor 7	\$200,651	\$0	\$200,651
Sponsor 8	\$149,919	\$0	\$149,919
Sponsor 9	\$14,950	\$0	\$14,950
Total	\$667,085	\$29,169	\$696,254

Recommendation

The Commissioner and the Director of Child and Adult Care Food Program (CACFP) and SFSP should ensure that all sponsors accurately report meals on reimbursement claims for the actual number of meals served to children. This assurance should include the implementation of additional monitoring controls for high-risk sponsors that show the pervasive pattern of claiming the same number of meals or the pattern of lower attendance on meal observation days comparing to non-observation days. The Interim Chief Officer of Program Integrity and Finance, the Director of CACFP and SFSP, and the Audit Director 1 should implement analytical procedures to identify sponsors with the above-mentioned patterns. Lastly, the Audit Director 1 should implement procedures to ensure that monitors appropriately follow up on unreasonable or unjustified meal count variance on meal observation days.

If subrecipients continue to maintain inadequate documentation for meal claim reimbursements, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Management's Comment

The Department concurs in part.

The Department agrees that documentation in the Department's External Program Review (EPR) work files represented a potential fraud risk factor and could have been used to expand the scope of the review of questioned entities. The Department recognizes the need for improvement in monitoring processes, but wishes to emphasize that the department holds itself to a higher standard in conducting external audits which is higher than the standards to which the federal grant is monitored.

The Department does not concur with the questioned costs as a suspicious meal claim standing alone is not sufficient for disallowing total meal costs. Only after documenting a pattern of behavior at the Sponsor's feeding sites could the Department disallow meals for the entire claim.

The reason for such a conservative approach is due to the fact the Department must defend its claims of disallowed meal and administrative costs with the Sponsors through the appeal process as described under 7 CFR 225.113.

The Department has taken the following initiatives to improve the professional development of EPR staff:

- Held both professional development training in-house and outside training for its auditors and monitors;
- Procured an electronic audit workpaper system;
- Provided high speed scanners and phones; and
- Designated the Certified Fraud Examiner (CFE) as the preferred professional credential.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A and the Department will issue future risk assessments in accordance with the revised guidance.

Auditor's Comment

Management agrees that improvements are needed; however, as stated in the finding, management has not yet taken steps to implement enhanced monitoring which would include steps to pursue suspicious meal pattern red flags as required. We questioned costs which were not documented, inadequately documented, or unreasonable. According to 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	2016-035
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	2015IN109945
Identification Number	
Federal Award Year	2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-033
Pass-Through Entity	N/A
Questioned Costs	\$10,674

The Department of Human Services did not comply with federal billing requirements to recoup excess funds, resulting in \$10,674 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.

Excess funds occur in the SFSP program when reimbursements or funds received by a sponsor exceed the sponsor's program expenditures. The department's Audit Services section, formerly referred to as External Program Review, determines during monitoring whether a sponsor received excess funds. If Audit Services identifies that 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 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.

Federal regulations specify the minimum efforts states must perform in order to collect funds from subrecipients. These regulations include sending out billing notices to the subrecipients demanding repayment of excess funds and pursuing legal remedies for subrecipients who fail to repay the excess funds.

Condition

As a result of Audit Services' monitoring efforts for the 2015 summer program, Audit Services' staff identified 27 SFSP sponsors with excess funds. Of the 27 sponsors with excess funds, we

determined that 4 sponsors did not participate in the 2016 summer program or any other Child Nutrition program. We performed procedures to determine if DHS staff followed up with these 4 sponsors to collect the excess funds. We also performed procedures to determine if staff collected excess funds from the 3 sponsors we noted in our prior Finding 2015-33 in the 2015 *Single Audit Report*. Based on testwork performed, we determined that DHS's program and fiscal staff did not issue billing notices according to federal regulations and did not demand repayment of excess funds, resulting in \$10,674 of questioned costs. Specifically, we noted the following:

- For the 4 non-returning sponsors, DHS program and fiscal staff issued the first billing notices for Sponsor 1 and Sponsor 2 on August 15, 2016, and did not issue the second notices until September 28, 2016, 14 days after the required second billing notice should have been issued. DHS issued the first billing notice for Sponsor 4 on October 4, 2016, after we requested documentation of DHS's recovery efforts of excess funds for the sponsors. By the end of our testwork, the additional notices and/or legal actions were not yet due; therefore, we did not question non-recovery of the excess funds since recovery may still be possible. Lastly, DHS program and fiscal staff issued Sponsor 3 a Notice of Proposed Termination and Disqualification (NPTD) from the summer food program on September 20, 2016, after the sponsor did not submit a corrective action plan, which was due to the DHS on November 22, 2015. At the time of the NPTD, the sponsor had excess funds on hand totaling \$10,764; however, DHS did not request repayment of the excess funds from Sponsor 3 and did not issue any other billing notices or refer the sponsor for legal action. We have questioned the \$10,764 that was not recovered from the sponsor.
- For 2 of 3 sponsors noted in the prior audit finding (67%), DHS issued second billing notices 243 days after the first billing notices, although federal regulations require the second billing notice be issued 30 days after the first billing notice. The second billing notices were issued subsequent to our inquiry to staff regarding the excess funds recovery process. DHS's late issuance of the second notice also caused staff to not comply with the billing timeline requirement to issue a third billing notice 60 days after the first billing notice and also to refer the sponsor for legal action 90 days after the first billing notice.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 12(b),

Minimum State agency collection procedures for unearned payments shall include:

- (1) Written demand to the sponsor for the return of improper payments;
- (2) If after 30 calendar days the sponsor fails to remit full payment or agree to a satisfactory repayment schedule, a second written demand for the return of improper payments, sent by certified mail, return receipt requested;

(3) If after 60 calendar days following the original written demand, the sponsor fails to remit full payment or agree to a satisfactory repayment schedule, a third written demand for the return of improper payments, sent by certified mail, return receipt requested;

(4) If after 90 calendar days following the original written demand, the sponsor fails to remit full payment or agree to a satisfactory repayment schedule, the State agency shall refer the claim against the sponsor to the appropriate State or Federal authorities for pursuit of legal remedies.

According to the U.S. Department of Agriculture's Food and Nutritional Service *Summer Food Service Program 2016 Administrative Guidance for Sponsors*,

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

Program and fiscal staff did not follow established federal requirements. Specifically, management has not developed and implemented a control process to ensure the department staff request repayment of excess funds from sponsors based on federal requirements to send notices within stated timelines and to follow up with sponsors when the sponsor does not pay, in accordance with federal regulations.

Effect

When the department does not make requests for the recovery of excess funds in accordance with federal regulations, the department cannot recover federal funds that sponsors are no longer entitled to because they no longer participate in the program. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;

- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We questioned \$10,674 for the excess funds paid to Sponsor 3 because DHS staff did not request repayment. Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. This finding, in conjunction with Findings 2016-029 and 2016-034, resulted in known questioned costs greater than \$25,000.

Recommendation

The Commissioner, the Director of SFSP and CACFP, and fiscal staff should follow federal regulations and develop the controls required to ensure compliance with the federal regulations so that staff recovers all excess funds when sponsors no longer participate in the program.

Management's Comment

The Department concurs in part.

The Department's monitoring reports included two levels of reporting: findings and observations.

- Findings are the deficiencies noted by the monitors in the monitoring report for any disallowed meal or administrative costs (overpayments) will be considered questioned costs. The overpayments can be recouped by the Department after the Sponsor has been afforded their appeal rights as described in 7 CFR 225.113.
- Observations are notes in the monitoring report to indicate that the Sponsor has excess food program funds as of a specific date. That fund could be expended subsequent to the monitoring report on food program related activities.

The Department does not concur with the questioned cost of \$10,674 based on an observation from the Department's monitoring report. The Department does not recoup costs identified as an observation.

The \$10,674 questioned in the finding related to an observation which reviewed June and July 2015 expenditures and determined that there was an undocumented difference between reimbursement and the Sponsors' record of food program expenditures.

The Sponsor could have expended program funds outside the period of the Department's review on allowable expenditures such as equipment purchases as part of a central kitchen. There were 11 months (July 2015 - June 2016) where the Sponsor could have returned as a Sponsor, and where allowable expenditures could have occurred. The Department, in the case of Sponsor 3, would have had to conduct a "close-out" audit to determine, if subsequent to the last review, excess funds were spent on allowable expenditures.

The intent of the observation was not to serve as a demand for excess funds for non-returning Sponsors. The purpose of such observations was to alert Food Program Management and allow them the opportunity to provide technical assistance.

Food Program Management submits a confirmation every January to all SFSP Sponsors to identify any excess funds. This confirmation is the basis for collecting excess for non-returning SFSP Sponsors.

The Department concurs regarding the timeliness of first and second billing notices for overpayments noted in the finding. To improve the recovery of all applicable overpayments, including excess funds, the Department developed a billing tracking mechanism to monitor these issues.

Auditor's Comment

Management's Comment is misleading. Management describes a process that is not applicable to the subrecipients identified in this finding. Because these subrecipients did not participate in the Summer Food Service Program for Children (or any other Child Nutrition Program) for the subsequent period as applicable, the department was required to recover excess funds.

According to 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	2016-036
CFDA Number	10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.778, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Medicaid Cluster Disability Insurance/Supplemental Security Income Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Federal Award Identification Number	2015IS251445, 201616S251445, H126A140063, H126A150063, H126A160063, G1402TNTANF, G1502TNTANF, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1401TNCCDF, G1501TNCCDF, G1601TNCCDF, 05-1505TN5MAP, 8826 04-15-04TNDI00, and 8826 04-16-04TNDI00
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.561	2015IS251445	\$1,139
10.561	201616S25144	\$1,633
93.558	G1402TNTANF	\$1,349
93.558	G1502TNTANF	\$97
93.563	HSCHLDSUPPORT15	\$236
93.563	HSCHLDSUPPORT16	\$347
93.778	05-1505TN5MAP	\$55
96.001	8829 04-15-04TNDI00	\$1,185
96.001	8826 04-16-04TNDI00	\$1,698

The Department of Human Services incorrectly allocated Vocational Rehabilitation expenditures to multiple other programs, resulting in known federal questioned costs of \$7,739

Background

The Department of Human Services (DHS) administers several federal programs at the state level, including the Supplemental Nutrition Assistance Program (SNAP), Vocational Rehabilitation (VR), Temporary Assistance for Needy Families (TANF), Child Support Enforcement (CSE), Child Care Development Fund (CCDF), Medical Assistance Program (MAP), and Social Security Disability Insurance (SSDI). As the department incurs expenditures related to these programs, program staff approve and submit invoices to Fiscal Services for allocation, approval, and payment through Edison, the state's accounting system. Once entered into Edison, the system automatically allocates the costs based on codes called speedcharts. Speedchart codes are preset to allocate the expenditures to the proper programs and funding percentages.

Condition

We selected a nonstatistical, random sample of 60 SNAP expenditure transactions, totaling \$2,422,003, from a population of 61,389, totaling \$17,622,786, for the audit period July 1, 2015, through June 30, 2016. We found that for 1 of 60 expenditures tested (2%), the Accounting Technician incorrectly allocated a Vocational Rehabilitation expenditure for interpretation services to multiple federal programs. See Table 1.

Table 1
Impact of Incorrect Allocation by Program

Amount Overcharged			
Program	Federal	State	Total
SNAP	\$68	\$68	\$136
TANF	\$36	\$36	\$72
CSE	\$14	\$8	\$22
CCDF	-	\$49	\$49
MAP	\$55	\$55	\$110
SSDI	\$71	-	\$71
Total	\$244	\$216	\$460
Amount Undercharged			
VR	(\$362)	(\$98)	(\$460)

Per discussion with the Accounting Technician, a former Fiscal Director assigned her the responsibility several years ago to allocate all interpretation service invoices to the applicable programs. In addition, the Accounting Technician stated that during fiscal year 2016, she contacted VR program staff and was advised to use the speedchart that incorrectly allocated the VR expenditure for interpretation service to multiple federal programs.

As a result of the error noted in our original testwork, we expanded our work and reviewed additional expenditures during the audit period July 1, 2015, through June 30, 2016. We reviewed 11,714 Child and Adult Care Food Program expenditures, totaling \$72,489,074; 1,544 Summer Food Service Program expenditures, totaling \$8,432,170; 61,389 SNAP expenditures, totaling \$17,622,786; 64,402 TANF expenditures, totaling \$69,910,659; 19,999 CSE expenditures, totaling \$18,895,288; 324,698 CCDF expenditures, totaling \$68,567,897; and 325,710 SSDI expenditures, totaling \$28,105,783, and found an additional 94 VR expenditures that were incorrectly allocated to SNAP, TANF, CSE, and SSDI. See Table 2.

Table 2
Impact of Incorrect Allocation by Program

Amount Overcharged			
Program	Federal	State	Total
SNAP	\$2,704	\$2,704	\$5,408
TANF	\$1,410	\$1,410	\$2,820
CSE	\$569	\$310	\$879
SSDI	\$2,812	-	\$2,812
Total	\$7,495	\$4,424	\$11,919
Amount Undercharged			
VR	(\$9,380)	(\$2,539)	(\$11,919)

We also found that the Family Assistance Accountant 2 and Accountant 3 approved the expenditures and did not identify the incorrect allocation of VR expenditures to multiple programs. Per discussion with the Accountant 2 and Accountant 3, they assumed VR program staff had thoroughly reviewed the invoices before submitting them to Fiscal Services; therefore, they did not question how the invoices were allocated.

Per discussion with the Fiscal Director, Fiscal Services identified the incorrect allocation of VR expenditures in March 2016, and the responsibility of allocating VR invoices related to interpretation services was moved to the VR Accounting Technician. In addition, program staff are now required to provide the program name(s) on the invoices so that the expenditures can be properly allocated. The Fiscal Director also stated that Fiscal Services waited until after the close of the federal fiscal year, September 30, 2016, to correct the expenditure allocation and speedchart issue due to other pending tasks. On December 7, 2016, Fiscal Services reallocated and corrected the expenditures that were incorrectly charged to multiple programs during the audit period.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2015 Financial Integrity Act Risk Assessment. We determined that management identified the risk associated with costs charged to federal programs that are not allowable; however, management did not indicate the specific controls to mitigate this risk.

Criteria

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 403,

[C]osts must meet the following general criteria in order to be allowable under Federal awards: (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles. . . . (g) Be adequately documented.

Cause

The Fiscal Director stated that program staff provided Vocational Rehabilitation invoices to Fiscal Services to process without specifying proper federal program allocation information, resulting in improper charges to various federal programs. According to the Fiscal Director, Fiscal Services was also short-staffed during this time.

Effect

As a result of these allocation errors, we found that DHS management charged the following federal programs for expenditures that were not allowed under those programs: Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Development Fund, Medical Assistance Program, and Social Security Disability Insurance. As a result, management did not recover all allowable charges from the VR grant in a timely manner.

Questioned Costs

Questioned costs for these overcharged expenditures totaled \$12,379. The federal portion of the questioned costs is \$7,739, and the state portion of the questioned costs is \$4,640. See Table 3.

Table 3
Total Impact of Incorrect Allocation by Program

Amount Overcharged			
Program	Federal	State	Total
SNAP	\$2,772	\$2,772	\$5,544
TANF	\$1,446	\$1,446	\$2,892
CSE	\$583	\$318	\$901
CCDF	-	\$49	\$49
MAP	\$55	\$55	\$110
SSDI	\$2,883	-	\$2,883
Total	\$7,739	\$4,640	\$12,379
Amount Undercharged			
VR	(\$9,742)	(\$2,637)	(\$12,379)

This finding, in conjunction with findings 2016-014, 2016-015, and 2016-016 (which also included federal questioned costs for the federal compliance requirement Allowable Costs/Cost

Principles), results in total known federal questioned costs exceeding \$25,000 for a type of compliance requirement for a federal program.

2 CFR 200.516(a)(3) requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

Recommendation

The Department Accounting Director⁴² should ensure fiscal staff allocates expenditures to the correct programs. In addition, the Department Accounting Director should require fiscal supervisors to adequately review expenditures to ensure costs are charged to the correct programs. Management should also include in its annual risk assessment the mitigating controls associated with costs charged to federal programs that are not allowable.

Management's Comment

The Department concurs.

The Department strengthened its internal controls in this area. Invoices submitted for payment are now required to have more detailed information in order to ensure that the proper federal award is charged. Fiscal staff has been reminded that invoices should be thoroughly reviewed prior to payment of an invoice. As noted in the finding, a journal entry to correct the errors identified was made on December 7, 2016.

⁴² On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Finding Number	2016-037
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A150063 and H126A160063
Federal Award Year	2015 and 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not comply with Vocational Rehabilitation earmarking requirements, resulting in the failure to provide \$17,200,626 in pre-employment transition services to disabled Tennessee students

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to assist states in operating comprehensive Vocational Rehabilitation (VR) programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, VR is administered by the Department of Human Services (DHS) through its Division of Rehabilitation Services. DHS is subject to federal earmarking requirements. Specifically, for any given federal fiscal year, beginning with the grant award for the federal fiscal year October 1, 2014, through September 30, 2015, the department must reserve at least 15 percent of its allotted grant award for the provision of pre-employment transition services.

These earmarked funds must be used by the state, in collaboration with local educational agencies, to provide, or arrange for the provision of, pre-employment transition services to disabled students. The services must be made available statewide for all students with disabilities, regardless of whether the student has applied or been determined eligible for VR services. DHS is required to provide the following services using the earmarked funds:

1. job exploration counseling;
2. work-based learning experiences, which may include in-school or after school opportunities, or experience outside the traditional school setting (including internships), that is provided in an integrated environment to the maximum extent possible;
3. counseling on opportunities for enrollment in comprehensive transition or postsecondary educational programs at institutions of higher education;
4. workplace readiness training to develop social skills and independent living; and

5. instruction in self-advocacy, which may include peer mentoring.

Funds that remain available after the provision of the required activities above may be used for various activities, including

- implementing effective strategies to increase the likelihood of independent living and inclusion in communities and competitive integrated workplaces;
- developing and improving strategies for individuals with intellectual disabilities and individuals with significant disabilities to live independently; participate in postsecondary education experiences; and obtain, advance in and retain competitive integrated employment; and
- providing instruction to VR counselors, school transition personnel, and other persons supporting students with disabilities.

Condition

Based on review of DHS's accounting records, the former Fiscal Director⁴³ did not reserve and expend the required 15 percent of allotted grant funds for the provision of pre-employment transition services for federal fiscal year 2015 or 2016 grant awards. Of the total amounts allotted to the state for the 2015 and 2016 grant awards, DHS was required to reserve and expend \$8,809,127 and \$8,995,672, respectively, for the provision of pre-employment transition services. For the 2015 grant award, DHS did not reserve and spend any funds for pre-employment transition services. For the 2016 grant award, DHS reserved and expended \$604,173 for pre-employment transition services. Therefore, for the 2016 award, DHS did not meet the earmarking compliance requirement with a deficit of \$8,391,499 in spending.

The Department Accounting Director⁴⁴ established and used a Project ID (a code in Edison, the state's accounting system) to reserve and spend funds for the provision of pre-employment transition services during the audit period; however, this Project ID was only associated with the federal fiscal year 2016 grant award and not the 2015 grant award.

Because the department did not spend the funds, we did not question any costs based on the failure to meet the earmarking compliance requirement to reserve and expend the required federal fiscal year 2015 and 2016 grant funds for pre-employment transition services. DHS spent less than 85% of its federal fiscal year 2015 and 2016 grant awards; therefore, the 15% that should have been used for pre-employment transition services was never expended. Management's failure to establish proper controls to ensure compliance with this compliance requirement is a material control weakness.

⁴³ According to the Department Accounting Director, the former Fiscal Director left the Vocational Rehabilitation program in November, and the Department Accounting Director assisted in ensuring the former Fiscal Director's duties were performed until a Fiscal Director was hired in March 2016.

⁴⁴ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Criteria

According to Title 29, *United States Code*, Section 730(d),

(d) Funds for pre-employment transition services

- (1) From any State allotment under subsection (a) for a fiscal year, the State shall reserve not less than 15 percent of the allotted funds for the provision of pre-employment transition services.
- (2) Such reserved funds shall not be used to pay for the administrative costs of providing pre-employment transition services.

According to Title 29, USC, Section 733(a),

From the funds reserved under section 730(d) of this title, and any funds made available from State, local, or private funding sources, each State shall ensure that the designated State unit, in collaboration with the local educational agencies involved, shall provide, or arrange for the provision of, pre-employment transition services for all students with disabilities in need of such services who are eligible or potentially eligible for services under this subchapter.

Cause

The Interim Chief Officer of Program Integrity stated that DHS staff felt that they did not receive timely, clear guidance pertaining to allowable activities for pre-employment transition services from the Rehabilitation Services Administration (RSA) for the 2015 grant award or for the 2016 grant award year. The Department Accounting Director also indicated that RSA did not release final guidance pertaining to pre-employment transition services earmarking requirements until June 2016, after the requirement became effective in October 2014. Based on discussion with the Department Accounting Director, because the federal partner did not issue final guidance on what services constitute pre-employment transition services until June 2016, the department was unable to enter into contracts needed to ensure the required amounts of funds were expended for allowable services. We noted, however, that 29 USC 733, which went into effect in July of 2014, specifically identified the required and allowable uses of the earmarked funds. In addition, based on our review of the department's pre-employment transition services expenditures, DHS began spending funds from its 2016 grant award for pre-employment transition services in November 2015, well before the final guidance was issued in June 2016; therefore, we concluded that DHS's failure to expend the funds was not the result of a lack of final guidance.

Effect

By not reserving and spending earmarked funds as required, DHS failed to provide \$17,200,626 in pre-employment transition services to Tennessee students with disabilities.

Recommendation

The Commissioner should ensure that DHS staff provide the required pre-employment transition services and charge the associated expenditures to an earmarking Project ID. DHS staff should also regularly monitor the transactions for the Project ID to ensure the earmarking requirement will be met by the end of the federal fiscal year for which the award was granted. If department management is uncomfortable implementing federal statutes as they are written due to a perceived lack of detail, the Commissioner should communicate with the federal awarding agency to obtain any clarifying guidance. Unless the federal awarding agency provides written documentation to the department advising the department otherwise, the department should implement the statute as written.

Management's Comment

The Department concurs in part.

The Department agrees that the earmarking requirement was not fully complied with in FY 2016. The Department does not concur that the effect of the compliance with the earmarking requirement resulted in failure to provide pre-employment transition service to the Department's clients.

The United States Department of Education, Rehabilitation Services Administration did not issue the final regulations which provided in part, specificity to the allowable & unallowable costs for the 15% set aside until June 2016. The TN Vocational Rehabilitation (VR) program continued to serve students with disabilities through approved compliance measures such as the Transition School to Work Contracts, Community Rehabilitation Providers, the Tennessee Rehabilitation Center at Smyrna as well as its 17 Community TRCs. While the program concurs with the finding regarding the mechanics of the newly required set aside mandate, the VR program staff did and continues to serve students with disabilities by providing a myriad of services, including those that have been identified as pre-employment transition services to the age group identified in the Workforce Innovation and Opportunity Act. Additionally, in order to determine the most appropriate method by which to provide the five required services, the VR program developed a pilot project in a defined geographic area and began capturing staff time used to provide the required services in accordance with federal partner guidance. That pilot included provision of the five required services and intentional collaborations with school systems in the provision of the services as well as community partners.

Finding Number	2016-038
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A150063
Federal Award Year	2015
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Period of Performance
Repeat Finding	2015-041
Pass-Through Entity	N/A
Questioned Costs	\$3,302,317

The Department of Human Services expended federal funds after the end of the liquidation period, resulting in questioned costs of \$3,302,317

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, the Vocational Rehabilitation program is administered by the Department of Human Services through its Division of Rehabilitation Services.

Current Process for Vocational Rehabilitation Grants Based on Requirements

The state spends funds for Vocational Rehabilitation purposes, recovers 78.7% of Vocational Rehabilitation expenditures from the federal government, and funds the remaining 21.3% through 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 (in this case, the state department) may obligate federal and non-federal funds. Grant recipients obligate these funds in a variety of ways, including entering into contracts, awarding subgrants, or receiving goods and services.

Vocational Rehabilitation funds have a period of performance that ends on the last day of the federal fiscal year for which the funds were granted. Additionally, Vocational Rehabilitation regulations include a requirement that no later than 90 days after the end of the period of performance, the state must liquidate⁴⁵ all Vocational Rehabilitation obligations incurred under

⁴⁵ Consistent with Title 2, *Code of Federal Regulations*, Part 200, Section 97, because the Department of Human Services uses accrual accounting, we considered obligations to be liquidated when the expenditure for the obligation was recorded in the accounting records, not when the department disbursed cash to liquidate an obligation.

the award. The Vocational Rehabilitation requirements also provide grant recipients the option to carry forward grant year funding to the following year if the grant recipient meets certain carryover provision requirements. If eligible for carryover, the grant recipients are allowed to extend the period of performance for one year.

Prior Audit Results and Current Corrective Action

During the prior audit, we noted that the former Fiscal Director⁴⁶ obligated the federal fiscal year 2013 and 2014 Vocational Rehabilitation grant funds after the end of the periods of performance and did not liquidate all Vocational Rehabilitation obligations within 90 days after the end of the period of performance, as required. Management concurred in part with the prior audit finding and stated that the department submitted a corrective action plan to the U.S. Department of Education's Rehabilitation Services Administration (RSA), the federal awarding agency, that addressed the audit concerns identified in the prior audit finding.

During the current audit, we found that the department made significant progress in resolving the prior-year finding issues by taking steps to work closely with RSA to implement the corrective action plan. The Commissioner of RSA recognized the department's efforts to resolve the issues. We also found that the department had taken corrective action to address the obligation process, and we did not identify any instances in which the department obligated Vocational Rehabilitation funds after the end of the period of performance. We did find, however, that due to an apparent misunderstanding of the federal regulations regarding the department's eligibility to carry over the federal fiscal year 2015 grant, management again did not liquidate all obligations within 90 days after the end of the period of performance.

Condition

As described in the background section above, the Vocational Rehabilitation requirements allow grant recipients (the state) the ability to carry over a grant to the next year, but only if certain carryover provisions are met. We determined through our discussions with the Department Accounting Director⁴⁷ that he believed he could carry over federal fiscal year 2015 grants funds. Under this assumption, the Department Accounting Director also believed that he had until December 29, 2016, to liquidate any 2015 grant obligation.

Under Vocational Rehabilitation requirements, in order to be eligible for the carryover provision for the 2015 grant, the department had to either (1) obligate more non-federal matching funds during federal fiscal year 2015 than required to meet matching provisions for the federal fiscal year 2015 grant funds or (2) enter into a late liquidation agreement with RSA.

⁴⁶ According to the Department Accounting Director, the former Fiscal Director left the Vocational Rehabilitation program in November, and the Department Accounting Director assisted in ensuring the former Fiscal Director's duties were performed until a Fiscal Director was hired in March 2016.

⁴⁷ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

We determined that the department did not meet either of these conditions, as explained below, and therefore federal regulations did not permit the department to carry over the 2015 grant; thus, the department was required to liquidate 2015 grant obligations by December 29, 2015.

Procedures to Determine Whether the Department Exceeded Non-federal Match Requirements or Obtained a Late Liquidation Extension

Based on our understanding of the department's accounting practices and discussion with fiscal staff, the department did not have a mechanism in place to provide for obligating or expending more non-federal funds than the 21.3% matching rate, and therefore, because management did not meet carryover provisions, the period of performance for the 2015 grant award ended September 30, 2015, and the department was required to liquidate all obligations of the 2015 grant award by December 29, 2015 (90 days after the period of performance ended September 30, 2015).

Based on review of RSA's Policy Directive 15-05, late liquidation requests must be submitted in accordance with the Department of Education's Policy Memorandum regarding extension of liquidation periods. Although we requested, fiscal staff could not provide a late liquidation request approved in accordance with the policy memorandum.

Testwork to Analyze the Liquidation of the 2015 Obligations

In order to determine the extent to which the department liquidated its 2015 grant award obligations after the required deadline of December 29, 2015, the end of the liquidation period, we reviewed expenditures for the 2015 grant award that were recorded in the accounting system after December 29, 2015, for the period January 1, 2016, through June 30, 2016.

Based on our testwork, we concluded that fiscal staff did not liquidate obligations totaling \$3,302,317 within 90 days after the end of the period of performance, as required by Vocational Rehabilitation regulations. The department's fiscal staff liquidated these obligations between 13 and 217 days after the liquidation period ended on December 29, 2015, with an average of 112 days after the liquidation period ended.

Cause

Through our discussions with the Department Accounting Director, we became aware that his interpretation of the carryover provisions differed from our position. For example, he believed that if the department entered into a one-year contract obligating \$21.30 in state funds and \$78.70 in federal fiscal year 2015 grant funds on July 1, 2015, the department could liquidate the \$78.70 obligation by December 29, 2016. The Department Accounting Director also told us that his RSA contact had told him his interpretation was correct. We also contacted RSA to obtain clarity as to the proper interpretation of the liquidation requirements.

We discussed the differing interpretations with the Chief of the Fiscal Unit of the RSA. In those discussions, the Chief of the Fiscal Unit provided an example of a 2016 grant and stated,

It appears that TDRS [Tennessee Department of Rehabilitation Services] will not be providing more non-Federal share for [sic] in expenditures than is required to match portions of the Federal VR award being expended (no overmatch) during the period of performance for the State Vocational Rehabilitation Services (VR) award. Obligations are recorded in TDRS' accounting system by assigning 78.7 percent of the obligation to Federal funds and 21.3 percent to State. If TDRS does not qualify for a carryover year, then any contracts obligated to the current year's grant award must be liquidated within 90 days after the end of the period of performance (4th quarter). For example, if TDRS **did not** qualify for a carryover period for its FFY [federal fiscal year] 2016 VR grant award, all funds (Federal and Non-Federal) would have to be liquidated by December 30, 2016. If TDRS **did** qualify for a carryover period for its FFY 2016 VR grant award, TDRS could continue to obligate an [sic] liquidate Federal funds during the carryover period [emphasis in original]. Additionally, TDRS could continue to liquidate non-Federal funds, obligated prior to September 30, 2016, during the carryover period. In this scenario, all Federal and non-Federal funds would have to be liquidated within 90 days after the end of the carryover period, December 30, 2017.⁴⁸

In summary, the email supports our interpretation of the requirements. We do believe that the Department Accounting Director acted in good faith but misunderstood the requirements.

Criteria

According to Policy Directive 15-05, "Obligations made during the period of performance may be liquidated at any point during the liquidation period, which is 90 days after the period of performance."

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 343(b),

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.

Effect

By liquidating funds after the end of the liquidation period, the department has spent federal grant funds it was not authorized to spend. The state could be required to reimburse the federal awarding agency the amount of funds that were liquidated after the end of the liquidation period.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207(b), "Specific conditions":

⁴⁸ The Chief of the Fiscal Unit's example indicates federal fiscal year 2016, but the requirements pertaining to liquidation and carryover for federal fiscal year 2016 are the same as for federal fiscal year 2015.

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Also, 2 CFR 200.338 states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We questioned \$3,302,317 in federal expenditures charged without authorization to the federal fiscal year 2015 Vocational Rehabilitation award. Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

Title 2, CFR, Part 200, Section 84, defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate

documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Department Accounting Director should ensure that federal funds that were obligated are properly liquidated no later than the end of the liquidation period for the grant award. This could be accomplished by requesting approval to extend the liquidation period or by ensuring that all expenditure transactions are recorded in the department's accounting records by December 29 following the end of the applicable period of performance.

Management's Comment

The Department does not concur.

On December 2, 2015, the Department submitted a corrective action plan to the Rehabilitation Services Administration (RSA) to address the deficiencies noted in RSA's audit as well as the prior Single Audit. The plan was approved by RSA on December 18, 2015. One of the primary objectives of the corrective action plan (CAP) was to identify obligations and track their subsequent liquidation. This plan was based on the Department's interpretations of the regulations (as detailed in the Cause section of the finding as differing from the auditors). The process included frequent communication with RSA to ensure the Department and RSA were in agreement as to the corrective actions being taken by the Department. Supporting documentation for the March 2016 semi-annual financial report (SF-425) was also submitted to RSA and subsequently approved. On August 15, 2016, RSA stated that "TDRS has provided RSA with the documentation necessary to demonstrate that the CAP requirements have been met. Therefore, RSA considers the CAP to be completed. It is crucial that TDRS continue to ensure effective implementation of the processes that led to compliance."

The Department discussed the e-mail referenced in the finding with the RSA representatives who worked with the Department on the CAP, and continue to believe that the approach taken by the Department was acceptable to RSA. As the e-mail states, "... if the department **did** qualify for a carry-over period, then the department would have an additional year and ninety days to liquidate obligations". In addition, the Department has received no indication from RSA, following their discussion with the auditors, that the CAP as submitted, or any of the Department's interpretations contained therein, requires modification.

As part of the special conditions placed on the federal fiscal year 2017 award, the Department must revise the SF-425s for FFY14 and FFY15 by May 15, 2017. The Department is in the process of completing that requirement; however, until it is completed, final determinations for periods of performance and corresponding liquidation periods cannot be made.

Auditor's Comment

We also discussed the liquidation requirements with RSA, and as presented in the finding above, RSA indicated that the approach the department took was not acceptable. We requested a conference call to discuss the matters with RSA and the department simultaneously to reach a

definitive, consistent understanding, but RSA declined to participate at this time. Although the SF-425 reports are not complete, we drew our conclusions based on review of the accounting records and discussion with the Department Accounting Director. Based on the procedures performed, we concluded that the department did not qualify for a carry-over period. We look forward to continuing to work with the department and RSA as the department continues to address these matters.

Finding Number	2016-039
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A140063, H126A150063, and H126A160063
Federal Award Year	2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	2015-043
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, 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.

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:

- A) whether the department is permitted to carry over Vocational Rehabilitation funds into the next federal fiscal year;
- B) if the department must return any unobligated federal program income to RSA; and
- C) if the department complied with various compliance requirements.

Condition

During the prior audit, we identified several critical deficiencies in the preparation of DHS's Vocational Rehabilitation SF-425 federal financial reports. Specifically, we found that department management did not ensure that the department's financial management systems were sufficient to permit the preparation of the SF-425 reports and that department fiscal staff did not ensure that the reports were complete and accurate. In accordance with federal regulations, the department entered into a Corrective Action Plan with RSA during the current audit period to correct the SF-425 reporting deficiencies. In addition to revising its reporting processes to ensure reporting requirements are met for future reports, RSA also required DHS, as part of the corrective action process, to complete or revise and resubmit each SF-425 report for the 2014 through 2016 grant awards by May of 2017. In spite of these steps to resolve these matters during the current audit period, we found that department management still did not ensure that the department's financial management systems were sufficient to permit the preparation of the required SF-425 reports during the audit period, July 1, 2015, through June 30, 2016.

Based on discussion with a Financial Management Specialist within RSA, due to DHS's history of inaccurate SF-425 reports and the state of DHS's implementation of the Corrective Action Plan, RSA and DHS mutually agreed that DHS would not continue to submit SF-425 reports until the plan was fully implemented. As a result, and as confirmed by the Interim Chief Officer of Program Integrity and Finance, DHS did not submit any finalized SF-425 reports during the audit period, as required. Given the extensive corrective actions required and the lack of finalized reports, we concluded that the Department Accounting Director⁴⁹ and Fiscal Director did not ensure that the department's fiscal control and accounting procedures (financial management systems) were sufficient to enable the preparation of required reports for the current audit period.

Since DHS did not submit any finalized reports, we were unable to test the required SF-425 reports. We contacted the Non-Federal Audit Team, U.S. Department of Education, Office of Inspector General, to gain a better understanding of federal officials' expectations regarding how we should present this matter in the current Single Audit report, given that we were unable to test any reports. The Non-Federal Audit Team advised us to present this matter as a finding in the Single Audit Report.

Subsequent to the audit period, DHS completed implementation of the Corrective Action Plan. Based on discussion with the Department Accounting Director, RSA accepted the revised Vocational Rehabilitation SF-425 Report Preparation policy and reviewed and approved the report preparation methods the department used to create the March 2016 SF-425 for the federal fiscal year 2016 grant award. Also, based on discussion with the Department Accounting Director, as part of the Corrective Action Plan, during our audit field work, fiscal staff were in

⁴⁹ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including the submission of financial reports to federal grantors. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

the process of revising and resubmitting SF-425 reports submitted since 2014 in accordance with the approved reporting procedures required by the plan.

Criteria

Regulations in Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 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.

According to RSA Policy Directive 15-05, "VR grantees must submit completed SF-425 reports on a semi-annual basis."

Cause

The insufficiency of the financial management system resulted from incorrect historical practices that were perpetuated through several years. These practices continued for several years due to inadequate review of controls and ineffective monitoring of the reporting process until the practices were discovered in 2015.

Effect

The department's reporting problems, among other factors, resulted in RSA identifying the department's Vocational Rehabilitation program as high-risk and prescribing special conditions for the department in November 2015. These special conditions included 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. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Title 2, CFR, Part 200, Section 207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

CFR 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

In consultation with the Department of Finance and Administration's Department Accounting Director, the DHS Commissioner should ensure that the revised internal controls for reporting for Vocational Rehabilitation are properly implemented and provide for complete, accurate, and timely report submissions.

Management's Comment

The Department concurs.

As stated in the finding, the Department submitted a corrective action plan to the U.S. Department of Education's Rehabilitation Services Administration (RSA) on December 2, 2015. The Department's successful completion of the corrective action plan was acknowledged by RSA on August 15, 2016. The high risk status placed on the federal fiscal year 2016 award was removed and was not placed on the federal fiscal year 2017 award. While a finalized SF-425 report was not prepared during the audit period, the required semi-annual SF-425 report for federal award year 2016 was prepared and submitted to RSA as part of the corrective action plan. The prepared report was subsequently approved by RSA. The Department is currently revising the SF-425 reports for federal fiscal years 14 and 15 based on the methodology utilized to prepare the March report submitted to RSA. This effort will be completed by May 15, 2017.

Finding Number	2016-040
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A150063 and H126A160063
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Program Income
Repeat Finding	2015-040
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services' fiscal staff did not record Vocational Rehabilitation program income properly 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 use 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 federal regulations permit grant 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 refer 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.

During the prior audit, we noted that the Department of Human Services’ fiscal staff did not record receipts and disbursements of Vocational Rehabilitation program income properly, did not treat program income consistently, and did not establish adequate controls over accounting for program income. The department concurred and stated that it had submitted a Corrective Action Plan to the federal awarding agency addressing the concerns in the prior audit finding. During the current audit, we found that management improved internal controls and treated program income consistently; however, management still did not address all control deficiencies related to accounting for program income. As a result of these uncorrected control deficiencies, we also found that management did not record \$4,177,866 in Vocational Rehabilitation program income transactions properly.

Condition

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. Although 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 and TRC 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 some program income transactions as federal and/or state revenue, depending on the circumstances, instead of recording the funding source as program income for all transactions.

- b. Fiscal staff incorrectly recorded both disbursements of Randolph Sheppard revenue and Vocational Rehabilitation program income as disbursements of Vocational Rehabilitation program income.
- 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 recorded the improper funding source for the program income transaction. As a result, revenue from program income was understated in Edison.
- d. Fiscal staff did not establish procedures to ensure the funding sources for expenditures were properly reclassified for program income transactions in accordance with the *Edison Grants Accounting Manual*. As a result, fiscal staff overstated federal expenditures for the Vocational Rehabilitation program and understated program income expenditures.

Program Income Was Not Recorded Properly

Based on our review of the accounting records, the Fiscal Director did not ensure that fiscal staff properly recorded \$4,177,866 of receipts and disbursements for Vocational Rehabilitation program income during the audit period, July 1, 2015, through June 30, 2016. Specifically, fiscal staff improperly recorded the funding source for

- SSA program income receipts totaling \$1,742,004 as federal and state revenue instead of program income (which overstated the federal/state revenue and understated program income); and
- SSA and TRC program income disbursements totaling \$2,435,862 as federal and state expenditures instead of program income (overstating federal/state expenditures and understating program income expenditures).

We also found that fiscal staff improperly recorded the funding sources for expenditures totaling \$747,961 and revenue transactions totaling \$627,289 as program income instead of classifying the transactions' funding sources as federal and state funding.

Criteria

According to Title 2, CFR, Part 200, Section 302(b)(3), "The financial management system of each non-Federal entity must provide for the following...(3) Records that identify adequately the source and application of funds for federally-funded activities."

Cause

We concluded that the issues noted above were primarily the result of improper accounting practices established by former accounting staff.

Effect

When fiscal staff do not have a process to ensure program income revenue and expenditures transactions are properly classified and accurately reflected in the accounting records, management cannot ensure program income is used and reported according to federal regulations.

Recommendation

The Commissioner and the Department Accounting Director⁵⁰ should establish adequate internal controls to address the control deficiencies identified in this finding. Specifically, the Commissioner and the Department Accounting Director should ensure that all program income is properly classified and recorded in the accounting records.

Management's Comment

The Department concurs in part.

Prior to the December 18, 2015, implementation of the corrective action plan with the Rehabilitation Services Administration (RSA), the Department did not properly record vocational rehabilitation program income. With the implementation of the corrective action plan, the Department's processes were modified in a manner resulting in program income being recorded to a revenue account named program income, thereby ensuring that all SSA and Contract Income could be appropriately identified. In addition, internal controls were put in place to help ensure that the program income revenue account is used to identify and report on this source of revenue. The Department also utilizes automated Edison functionality to ensure that amounts recorded to the program income revenue account are assigned to expenditures already incurred by the Department (which in turn reduce the amount requested from the federal government).

The Department agrees that the program business processes and controls implemented as part of the corrective action plan are not in perfect alignment with the *Edison Grants Accounting Manual* posted on the Edison portal. It is noted that the following statement is posted on the Edison portal along with the manual:

“The Edison Grants Accounting Manual is still being developed... this version has been released as a draft version and may be subject to changes.”

The Department understands that the manual is currently being revised by the Department of Finance and Administration. The department has already been in communication with those working on the revisions relative to the program income section.

⁵⁰ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing DHS's fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Auditor's Comment

Although the *Edison Grants Accounting Manual* is subject to change, it has not been modified since February 11, 2014. It is reasonable to expect compliance with the manual until it is changed, since it is the only published relevant guidance. Regardless of the manual's guidance, if the department chooses to record transactions with a program income activity code, it follows that

1. all transactions with the program income activity code should actually represent program income transactions, and
2. all program income revenue and expenditure transactions should use the program income activity code.

In order to prevent inconsistent (and thus misleading) accounting records identified in this finding, the department should not use the program income activity code if system limitations prevent the department from using it properly for all program income revenue and expenditures.

Finding Number	2016-041
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A100063, H126A120063, H126A130063, H126A140063, H126A150063, and H126A160063
Federal Award Year	2010 and 2012 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2015-038
Pass-Through Entity	N/A
Questioned Costs	N/A

For the second year, Vocational Rehabilitation counselors did not always develop clients' Individualized Plan for Employment within 90 days, obtain extension agreements, meet extension deadlines, 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. 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 complete an IPE within 90 days of the client's eligibility determination date, as required by the *United States Code*, the federal regulations require the department to obtain an agreement with the client to extend the time for completing the IPE.

As noted in the prior audit, Vocational Rehabilitation counselors did not always develop IPEs timely or obtain extension agreements with the clients timely. The Department of Human Services' management concurred in part with the prior-year finding and stated that the department implemented new regulations through a change in procedures on March 30, 2015. In addition, during the current audit period, we noted supervisors monitored the counselors for IPE timeliness; we also found that the number of IPEs developed late had decreased from 14 in the prior audit to 7 in the current audit, and the average number of days the IPEs were late decreased from 46 to 22 days. These improvements suggest that management's new process is helping staff achieve compliance. These improvements may take time. We focused our review on the new process, and we still found instances of noncompliance that we are required to report.

Condition

We tested a nonstatistical, random sample of 60 clients from the 5,547 clients who began receiving benefits during fiscal year ended June 30, 2016. We found that for 16 of 60 clients tested (27%) with an eligibility determination date between July 1, 2015, and June 30, 2016, 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 4 of the 16 clients, the counselors developed the clients' IPEs between 19 and 31 days late and had not entered into an agreement with 2 of the clients to establish an extension to develop the IPE. For the 12 of 16 clients with a late extension agreement, the counselors obtained the extension agreements between 91 and 147 days after the eligibility determination date. In addition, for 3 of these clients, staff did not develop the IPEs by the agreed-upon extension date. The IPEs for these clients were developed between 15 and 26 days after the extension date.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2015 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. Even though management had not identified the risk and the control, we found that management did have a new process as described above.

Criteria

Title 29, *United States Code* (USC), 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.

“Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, *Code of Federal Regulations* (CFR), Section 200.62, states,

Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:

- a. Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;

- b. Transactions are executed in compliance with: (1) Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and (2) Any other federal statutes and regulations that are identified in the Compliance Supplement; and
- c. Fund, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Cause

Even though we found violations (a 27% error rate based on the sample tested) of the federal requirement in 29 USC 16.722(b)(3)(F), the Assistant Commissioner of Rehabilitation Services stated that management does not agree that there is a systemic problem and attributed three of the errors to client unavailability. The department provided no other explanation for why counselors did not complete the clients' IPEs in accordance with federal regulations 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. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

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 an 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's and client's agreement to extend the completion date. The Assistant Commissioner should continue to implement effective internal controls to ensure that clients' IPEs are developed no later than 90 days after their 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

The Department concurs.

The Vocational Rehabilitation (VR) program has made significant improvement to reduce the number of late Individualized Plan for Employments (IPEs) and the number of days late for the remaining IPEs. This requirement has been added as part of the Workforce Innovation and Opportunities Act (WIOA). The Department will continue the improvements process with focus on timeliness and adjustments, as required. While this issue is not considered an eligibility or financial risk issue, the Department takes this issue seriously.

The Department's VR program has included as a performance measure (Work Outcome) in each counselor's Individualized Performance Plan (IPP) of the development of an IPE within 90 days.

The counselor's progress on this work outcome is monitored by the counselor's supervisor, and the supervisor holds monthly conferences with the employee to evaluate their progress and hold them accountable when necessary. Performance with this work outcome is also tracked, discussed, and reinforced by unit managers at regular unit meetings.

The Department completes its annual risk assessment as required under *Tennessee Code Annotated*, Section 9-18-101 using guidance provided by the Tennessee Department of Finance and Administration (F&A). The Department's most recent risk assessment assessed the risks of non-compliance by compliance type requirement for the Department as a whole. For FY 2018, the annual risk assessment guidance has been updated by F&A, and the Department will issue future risk assessments in accordance with the revised guidance.

Finding Number	2016-042
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Federal Award Identification Number	H126A160063
Federal Award Year	2016
Finding Type	Significant Deficiency
Compliance Requirement	Matching, Level of Effort, Earmarking
Repeat Finding	2015-042
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services did not establish adequate controls over maintenance of effort requirements

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, to prevent a reduction in the amount payable to the state for any given federal fiscal year, DHS must spend at least as much on VR from non-federal sources in the previous federal fiscal year as it did in the second fiscal year preceding the previous federal fiscal year. For example, for the federal fiscal year October 1, 2014, through September 30, 2015 (FFY 2015), DHS was required to spend at least as much on VR from non-federal sources as it did during FFY 2013 or have DHS' FFY 2016 award reduced. In this example, the amount of expenditures from non-federal sources during FFY 2013 would be the maintenance of effort threshold for FFY 2015.

During the prior audit, we noted that the department had not established adequate controls over maintenance of effort requirements and had not ensured that the U.S. Department of Education reduced the Vocational Rehabilitation award by the correct maintenance of effort deficit. Management concurred with the prior audit finding and stated that the department submitted a corrective action plan to the federal awarding agency that addressed the concerns identified in the prior audit finding. During our review, we determined that there was no maintenance of effort deficit for the program; therefore, there was no need for management to ensure that the U.S. Department of Education reduced the Vocational Rehabilitation award by the correct maintenance of effort deficit. However, based on the procedures we performed during the current audit, we found that management still has not established adequate controls to ensure that

department staff perform the maintenance of effort calculations necessary to ensure that Vocational Rehabilitation awards are appropriately reduced for maintenance of effort deficits.

Condition

Based on discussion with the Department Accounting Director,⁵¹ the department's fiscal staff had not established controls to ensure that department staff perform maintenance of effort calculations and that Vocational Rehabilitation awards are appropriately reduced for maintenance of effort deficits. The former Fiscal Director left the Vocational Rehabilitation program on November 5, 2015, and the Department Accounting Director assisted in ensuring the former Fiscal Director's duties were performed until a Fiscal Director was hired in March 2016. At the end of the audit period, June 30, 2016, neither the Fiscal Director nor the Department Accounting Director had established controls over maintenance of effort requirements.

Criteria

According to Title 29, *United States Code* (USC), 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.

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 303(a), a non-Federal entity receiving a federal award must

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Cause

The Department Accounting Director stated that he was unsure how to establish appropriate internal controls for maintenance of effort requirements because the requirements assume that the department has continually increasing resources. We noted, however, that the requirements did not assume that the department has continually increasing resources. Specifically, 29 USC 731(a)(2)(B), does not prohibit the state from having a maintenance of effort deficit or require that the state always meet the maintenance of effort threshold. Instead, noncompliance occurs when the amount otherwise payable to a state is not reduced by any maintenance of effort deficit. Therefore, even with continually *decreasing* resources, the department could establish

⁵¹ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

appropriate internal controls by ensuring that the amount payable to the state by the federal agency for a fiscal year is reduced by the amount of any maintenance of effort deficit.

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.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in 2 CFR 200.338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Furthermore, Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.

- (f) Take other remedies that may be legally available.

Recommendation

The Department Accounting Director should establish a documented process for calculating maintenance of effort thresholds based on actual expenditures, and should ensure that DHS staff notify the U.S. Department of Education when the state's Vocational Rehabilitation Grants to States grant award should be reduced due to a maintenance of effort deficit.

Management's Comment

The Department concurs in part.

The Department concurs that prior to implementation of the corrective action plan sufficient controls were not in place to ensure compliance with maintenance of effort (MOE) requirements; however, the Department does not concur that separate controls need to be implemented for MOE requirements.

According to Title 34 *Code of Federal Regulations* (CFR), Part 361, Section 62 (a),

General requirements. The Secretary reduces the amount otherwise payable to a State for any fiscal year by the amount by which the total expenditures from non-Federal sources under the vocational rehabilitation services portion of the Unified or Combined State Plan for any previous fiscal year were less than the total of those expenditures for the fiscal year two years prior to that previous fiscal year.

The SF-425 is the mechanism for reporting the non-federal share to the federal government. The controls established to ensure the proper recording and reporting of non-federal share as part of the corrective action plan also addressed controls over reporting MOE as they are one in the same for this program. The Vocational Rehabilitation Program is unique in terms of MOE in that meeting an MOE threshold is NOT required to be entitled to the current year's allocation of funds; rather MOE is used to adjust future funding to a state based on prior expenditure data. In short, if a State is unable to provide the non-federal share to secure the federal matching dollars on a consistent basis, the amount of funding is adjusted to reflect the amount of federal funding that can be adequately matched by a state.

As the criterion above indicates, the Secretary of Education is responsible for reducing the amount payable to the state and not the Department. The Department does not have the legal authority to ensure that the secretary performs these duties in accordance with the CFR. Additionally, the Secretary has the discretion to waive/modify the requirement per 34 CFR 361.62; therefore, there will not always be a decrease for MOE deficits. Performing MOE calculations is therefore the responsibility of the awarding agency. The responsibility of the Department is to report accurate non-federal share information on which MOE surplus/deficit decisions can be made.

Auditor's Comment

Neither the federal regulations nor the finding above indicate that there is a mandate that the department establish separate internal controls for the maintenance of effort compliance requirement. The regulations do require that adequate, effective internal controls be in place so that management can reasonably ensure it complies with federal requirements. Regulations also require us to review the department's internal controls over reporting compliance requirements as well as the internal controls over maintenance of effort compliance requirements for the Vocational Rehabilitation program. While the department's comments indicate that it intends to use SF-425 controls in the future as its internal controls over the maintenance of effort requirements, we are required to report findings due to the lack of adequate controls over maintenance of effort as well as the lack of controls over reporting based on our audit scope, which ended June 30, 2016.

Finding Number	2016-043
CFDA Number	93.558
Program Name	Temporary Assistance for Needy Families Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	G1202TNTANF, G1302TNTANF, G1402TNTANF, G1502TNTANF, and G1602TNTANF
Federal Award Year	2012 through 2016
Finding Type	Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$740

The Department of Human Services did not remove recipients from Temporary Assistance for Needy Families cases and incorrectly calculated benefits paid to recipients, resulting in known questioned costs of \$740

Background

The Department of Human Services (DHS) administers the Temporary Assistance for Needy Families program (TANF), which is a federal program under the oversight of the Administration for Children and Families within the U.S. Department of Health and Human Services (HHS). Created to help needy families achieve self-sufficiency, the TANF program gives states a block grant to design and operate its own program. According to the HHS website, the four purposes of the TANF program are to

- Provide assistance to needy families so that children can be cared for in their own homes.
- Reduce the dependency of needy parents by promoting job preparation, work and marriage.
- Prevent and reduce the incidence of out-of-wedlock pregnancies.
- Encourage the formation and maintenance of two-parent families.

To receive TANF benefits, applicants must meet certain eligibility criteria, such as maximum income and resource limits. Applicants must also verify that the family unit applying for benefits (called an assistance unit) consists of either a pregnant woman or at least one child who lives with a parent or other relative, such as a grandparent, aunt, or uncle. To be included in the assistance unit for TANF benefits, children in the home must be less than 18 years old, or they must be less than 19 years old if they are a full-time student in secondary school, or the vocational or technical equivalent of secondary school. DHS caseworkers document the eligibility of new applicants and continuing clients in the department's Automated Client Certification Eligibility Network for Tennessee system.

Condition

We selected a nonstatistical, random sample of 60 TANF recipients that received TANF benefits during fiscal year 2016, and we reviewed their eligibility for a randomly selected month. Based on our review, we found that DHS staff did not remove recipients as TANF beneficiaries once they turned 18 and did not properly classify the relationship between a recipient and his caregivers, which resulted in incorrect benefit calculations. Specific details are as follows:

- For 2 of 60 recipients tested (3%), we found that the DHS caseworkers did not remove a child from the case once the child turned 18 and graduated from high school. Instead of removing the child from the case the month following the child's 18th birthday, the caseworkers waited until the next annual renewal period to remove the ineligible child from the case and recalculate benefits. DHS overpaid \$420 in benefits on behalf of one child for 3 months and \$360 on behalf of 1 child for 9 months after the child turned 18 years old and was no longer eligible; 8 of those months were during the audit period (\$320). We questioned \$740 dollars in overpayments for the months tested in our audit period.
- For 1 of 60 recipients tested (2%), we found that the DHS caseworker did not properly document the relationship of one child to his caregivers. The recipient was the grandson of his caregivers and should have been included in his own case; however, the caseworker incorrectly included him with his grandparents' other children. Because the child was not in the correct category, DHS underpaid benefits on behalf of the recipient by \$99 per month. Since the error resulted in an underpayment, we did not question costs.

Risk Assessment

We reviewed the DHS November 2015 Financial Integrity Act Risk Assessment and determined that management identified the risk associated with staff not discontinuing benefits when the period of eligibility expires; however, management did not indicate the specific controls to mitigate this risk.

Criteria

According to Title 42, *United States Code*, Section 608(a)(1),

A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to a family, unless the family includes a minor child who resides with the family (consistent with paragraph (10)) or a pregnant individual.

According to Title 45, *Code of Federal Regulations* (CFR), Section 260.30, a minor child is defined as

an individual who: (1) Has not attained 18 years of age; or (2) Has not attained 19 years of age and is a full-time student in a secondary school (or in the equivalent level of vocational or technical training).

In addition, Section 35.3 of the Families First policy manual states,

Some cases may need more frequent contact than every twelve months because of changes in the [assistance unit's] circumstances that can be expected. In those instances, the caseworker should set an expected change alert to ensure that the changes are investigated and acted on in a timely manner.

Section 7.2 of the manual additionally includes a list of the mandatory members of an assistance unit, which does not include grandparents, aunts, uncles, nieces, and nephews. Also, according to Section 7.3 of the manual,

Optional AU [assistance unit] members include: Grantee relative other than a parent, e.g. grandparent, aunt, uncle, or other relative within the specified degree of relationship who:

Provides a home for the child.

Exercises primary responsibility for the care and control of the child.

Asks to be included.

Is otherwise eligible.

Cause

Based on discussion with management, caseworkers did not remove the children from the cases once they turned 18 because, at the time of the prior renewal, the children were still eligible. The caseworker did not note an alert that the child was turning 18 and revisit the case after that time, in accordance with the Families First policy manual.

Additionally, management stated that the child's relationship with his grandparents was incorrectly documented because of a miscommunication when the family initially applied for benefits. The caseworker documented the child as the child of the applicants, instead of as a grandchild, so he was mistakenly included the case with the applicants' other children. After we inquired about the case, management took immediate action to correct the error.

Effect

When department staff do not follow established policy to ensure the eligibility of TANF recipients, the department charges the federal grantor for ineligible individuals. When the department does not comply with federal regulations, there is an increased risk that the federal grantor may impose certain sanctions as outlined in the Uniform Grant Guidance, Section 200.338. These sanctions include

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

We selected our sample of 60 recipients and the month for which we tested eligibility for each recipient from a total population of 897,921 individual recipient records for the period July 1, 2015, through June 30, 2016, which represented a total sample of \$10,828 and a total population of \$50,792,049 in federal benefits paid. Since the department did not remove ineligible children from cases, we questioned \$740 overpaid on behalf of the children (\$180 from the sample and \$560 for expanded to include all overpayments on behalf of the children during the fiscal year). Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program.

Recommendation

The Director of Families First should ensure staff follow federal requirements and internal policy so that caseworkers review all cases and take appropriate action when children reach age limits, unless the child meets one of the exemption requirements. The Director should also ensure that caseworkers clearly and accurately document the relationships between children and caregivers.

Management's Comment

The Department concurs.

The Department agrees that the two children were not removed from the eligible parent(s) cases in a timely manner. The program staff will complete a review of all cases currently indicated as having children approaching the age of 18, as appropriate, and remove those ineligible children from the cases. Also, to ensure that ineligible persons are removed, weekly individual alerts will be utilized for quality control reviews through ACCENT.

Finding Number	2016-044
CFDA Number	93.558
Program Name	Temporary Assistance for Needy Families Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Federal Award	G1402TNTANF, G1502TNTANF, and G1602TNTANF
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not report federal financial information and state maintenance of effort information in accordance with reporting instructions for the ACF-196R State TANF Financial Report Form

Background

The Department of Human Services (the department) administers the Temporary Assistance for Needy Families (TANF) program, which is a federal program under the oversight of the Administration for Children and Families under the U.S. Department of Health and Human Services (HHS). Created to help needy families achieve self-sufficiency, the TANF program gives states a block grant to design and operate its own program. According to the HHS website, the four purposes of the TANF program are to

- Provide assistance to needy families so that children can be cared for in their own homes.
- Reduce the dependency of needy parents by promoting job preparation, work and marriage.
- Prevent and reduce the incidence of out-of-wedlock pregnancies.
- Encourage the formation and maintenance of two-parent families.

In order to fulfill its financial reporting requirements, the department is responsible for submitting the ACF-196R State TANF Financial Report Form (ACF-196R report) for each open grant award to the Administration for Children and Families (ACF) within 45 days after the end of each quarter. These reports contain expenditure information for TANF by the funding type (federal, state maintenance of effort, or contingency) and by expenditure category, such as basic assistance, work activities, administrative expenditures, and systems expenditures. ACF uses these reports to track TANF spending and to ensure states are in compliance with federal requirements, such as the state maintenance of effort (MOE) requirements.

To prepare the ACF-196R reports, fiscal staff run queries using Edison, the state's accounting system, to obtain TANF expenditure information for the report. Additionally, fiscal staff obtain child care and pre-kindergarten education expenditure information from other fiscal staff within the department and from the Department of Education, respectively. Fiscal staff filter the Edison data to separate it by funding type and expenditure category, summarize the data for each line, and enter all expenditure information into the federal On-Line Data Collection website. Once fiscal staff complete the reports for the quarter, fiscal management review the reports and supporting documentation. Once fiscal management completes their review, they certify the report and submit it through the On-Line Data Collection website.

Condition and Cause

To ensure the department's compliance with TANF financial reporting requirements, based on analytical procedures, we selected the following reports for review:

- Grant Year 2014, Quarter Ended March 31, 2016;
- Grant Year 2015, Quarter Ended September 30, 2015;
- Grant Year 2016, Quarter Ended March 31, 2016; and
- Grant Year 2016, Quarter Ended June 30, 2016.

For the reports selected, we performed testwork to determine the accuracy of the information included on the report. Based on testwork performed, we noted that fiscal management did not discover the following errors during the review process and subsequently reported inaccurate information to ACF:

- For four of nine values reported for state MOE expenditures on the Grant Year 2016 June 30, 2016, ACF-196R report, fiscal staff incorrectly included expenditures from the last quarter of the prior federal fiscal year (July 2015 through September 2015). Fiscal staff should have only reported MOE expenditures for the period October 2015 through June 2016. See Table 1. When we discussed the error with fiscal staff, they agreed and stated that the error was a mistake and that they would revise the quarter ending September 30, 2016, report,⁵² in accordance with report instructions, to correct these errors.

Table 1
Grant Year 2016
Quarter Ended June 30, 2016
(State MOE Expenditures)

<i>Line Item</i>	<i>DHS Reported</i>	<i>Auditor Calculated</i>	<i>Difference Over/(Under) Reported</i>
6a. Basic Assistance	\$13,972,788	\$9,503,848	\$4,468,940

⁵² The ACF-196R report is a cumulative report.

9c. Additional Work Activities	\$20,952,131	\$20,263,029	\$689,102
10. Work Supports	\$284,708	\$199,533	\$85,175
16. Supportive Services	\$71,356	\$53,963	\$17,393

- For two of nine values reported for state MOE expenditures on the Grant Year 2016 June 30, 2016, ACF-196R report, fiscal staff did not include cumulative federal fiscal year information (October 2015 through June 2016); they only included current quarter information (April 2016 through June 2016). See Table 2. Based on discussion with fiscal staff, they included only the current quarter expenditures because these values were allocations that other fiscal staff within the department and staff from the Department of Education reported to them. The report preparer did not properly coordinate with those that supplied the data; thus, he was unaware the values were not cumulative.

Table 2
Grant Year 2016
Quarter Ended June 30, 2016
(State MOE Expenditures)

<i>Line Item</i>	<i>DHS Reported</i>	<i>Auditor Calculated</i>	<i>Difference Over/(Under) Reported</i>
11a. Child Care	\$5,040,712	\$15,122,136	\$(10,081,424)
11b. Pre-K/Head Start	\$20,676,382	\$49,976,165	\$(29,299,783)

- For two of seven values reported for the federally funded expenditures on the Grant Year 2015, September 30, 2015, ACF-196R report, fiscal staff did not include cumulative expenditures for the federal fiscal year (October 2014 through September 2015); they only included expenditures from the first quarter of federal fiscal year 2015 (October 2014 through December 2014). See Table 3. As of the end of fieldwork, fiscal staff had not provided an explanation for these errors.

Table 3
Grant Year 2015
Quarter Ended September 30, 2015
(Federal Expenditures)

<i>Line Item</i>	<i>DHS Reported</i>	<i>Auditor Calculated</i>	<i>Difference Over/(Under) Reported</i>
10. Work Supports	\$30,308	\$285,832	\$(255,522)
16. Supportive Services	\$9,655	\$61,834	\$(52,179)

- For 12 additional values reported for federal and state MOE expenditures across all 4 reports tested, fiscal staff miscalculated the values. See Table 4. Fiscal staff stated that 2 of the errors were due to misclassification of administrative and systems expenditures during the reports' preparation; however, as of the end of fieldwork, fiscal staff had not provided an explanation for the other 10 errors.

Table 4
Unexplained Errors on All Reports Reviewed

<i>Line Item</i>	<i>DHS Reported</i>	<i>Auditor Calculated</i>	<i>Difference Over/(Under) Reported</i>
<i>Grant Year 2014: Quarter Ended March 31, 2016 Federal Expenditures</i>			
22c. Systems	\$75,219	\$91,989	\$16,770
<i>Grant Year 2015: Quarter Ended September 30, 2015 Federal Expenditures</i>			
9c. Additional Work Activities	\$550,895	\$627,883	\$(76,988)
22a. Administrative Costs	\$4,730,957	\$4,558,790	\$172,167
22c. Systems	\$344,984	\$446,090	\$(101,106)
<i>Grant Year 2015: Quarter Ended September 30, 2015 State Expenditures</i>			
9c. Additional Work Activities	\$10,532,498	\$8,400,601	\$2,131,897
16. Supportive Services	\$97,452	\$431,268	\$(333,816)
22a. Administrative Costs	\$16,315,118	\$17,714,444	\$(1,399,326)
22c. Systems	\$2,989,031	\$1,013,961	\$1,975,070
<i>Grant Year 2016 Quarter Ended March 31, 2016 Federal Expenditures</i>			
22a. Administrative Costs	\$300,131	\$145,941	\$154,190
22c. Systems	\$326,945	\$329,375	\$(2,430)
<i>Grant Year 2016: Quarter Ended March 31, 2016 State Expenditures</i>			
22a. Administrative Costs	\$3,081,299	\$2,966,695	\$114,604
22c. Systems	\$32,7054	\$423,139	\$96,085

Criteria

According to the ACF-196R Report Instructions,

Effective FY 2015, a state will report *actual* Transfers, *actual* Expenditures, and *actual* Unliquidated Obligations (henceforth referred to as expenditures) made with each open grant year award during a fiscal year. In other words, each quarterly report will reflect expenditures cumulative through that quarter *for the fiscal year*, resulting in a fourth quarter report that reflects actual expenditures made with the grant year (GY) award funds for the fiscal year.

Furthermore, according to the ACF-196R instructions,

Beginning with FY 2015, revisions to any expenditures made in FY 2015 and thereafter (federal and MOE) should be made to the ACF-196R of the report quarter ending September 30th of the fiscal year in which the expenditure occurred.

Effect

The ACF relies on expenditure data reported by state agencies to track program expenditures and ensure compliance with federal requirements, such as state MOE requirements. When reports are not prepared in accordance with the published instructions, management increases the risk

that ACF will determine the state's compliance with requirements based on inaccurate or incomplete data, which has the potential to affect future funding.

Recommendation

Management should ensure reports are prepared in accordance with report instructions. Management should evaluate and revise the review process to ensure reports accurately reflect expenditure data. In addition, fiscal staff should also coordinate with other departmental offices and the Department of Education to ensure the data submitted to fiscal staff is accurate and complete.

Management's Comment

The Department concurs.

A template for the ACF-196R report has been developed based on the reporting instructions for preparation of the report. The template contains data validation checks to mitigate the risk of amounts being recorded on the incorrect lines of the report. The data validation checks also mitigate the risk of prior federal fiscal year information being included in the current federal fiscal year report. An evaluation of the current management review process has begun. Based on the results of the evaluation, the review process will be revised to address control deficiencies that are identified. The Department expects to complete the analysis of the review process and have the identified deficiencies addressed by June 30, 2017. All reporting errors identified in the finding were corrected on the September 30, 2016, report for the applicable federal fiscal year.

Finding Number	2016-045
CFDA Number	93.558, 93.563, 93.575, and 93.596
Program Name	Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	G1402TNTANF, G1502TNTANF, G1602TNTANF, HSCHLDSUPPORT15, HSCHLDSUPPORT16, G1501TNCCDF, and G1601TNCCDF
Federal Award Year	2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services submitted SF-425 Federal Financial Reports that were inaccurate, unsupported, and included up to \$131 million in variances

Background

The U.S. Department of Health and Human Services (HHS) requires the Department of Human Services (DHS) to file a *Federal Financial Report*, the SF-425 report, to report federal cash transactions for federal grants received from HHS's Administration for Children and Families (ACF). DHS reports federal cash transactions for several programs on each SF-425 report, including the Temporary Assistance for Needy Families program, the Child Care and Development Fund, the Child Support Enforcement program, the Assistive Technology program, Grants to States for Access and Visitation Programs, and the Independent Living State Grants program.

In accordance with the instructions for the SF-425 report, HHS only requires DHS to report three numbers on each SF-425 report: cash receipts, cash disbursements, and cash on hand. Because multiple programs are included on a single SF-425 report, HHS requires DHS to use a companion report, the *Federal Financial Report Attachment*, SF-425A, to separately identify cash disbursements for each federal program. The total amount of cash disbursements for all federal programs reported on the SF-425A must agree with the total amount of cash disbursements reported on the SF-425 report.

DHS submits the quarterly reports online through the HHS Payment Management System. HHS requires DHS to submit the reports 30 days after each quarter end, and requires staff to report cash receipts and disbursements on a cash basis, rather than the accrual basis.

Conditions and Criteria

A. Cash Receipts and Cash on Hand Were Overstated

During our review of the SF-425 reports, we noted that the Accountant reported over \$100 million in cash receipts (line 10a) and cash on hand (line 10c) in each of the quarterly reporting periods during the audit period, July 1, 2015, through June 30, 2016; however, management and staff could not provide any evidence to support that DHS had over \$100 million in cash receipts for the applicable federal programs during any quarter or that DHS had over \$100 million in federal cash on hand at the end of any quarter. See Table 1 below:

Table 1: Reported Cash Receipts, Cash Disbursements, and Cash On Hand			
Quarter Ended	Cash Receipts	Cash Disbursements	Cash On Hand
9/30/2015	\$ 170,547,153	\$ 53,897,877	\$ 116,649,276
12/31/2015	\$ 170,169,916	\$ 66,358,192	\$ 103,811,724
3/31/2016	\$ 157,982,079	\$ 49,312,410	\$ 108,669,669
6/30/2016	\$ 162,116,701	\$ 30,612,416	\$ 131,504,285

Source: Prepared by auditors using the department's SF-425 reports.

Based on discussion with DHS fiscal staff and the results of our cash management testwork, the federal programs included on the SF-425 reports were funded on a reimbursement basis, meaning federal funds were only requested after DHS used non-federal funds to pay for the programs' expenditures. Since cash disbursements preceded cash reimbursements, based on discussion with the Department Accounting Director⁵³ and our cash management testwork, cash on hand should generally be zero or negative.⁵⁴ In spite of this, the Accountant consistently reported over \$100 million in cash receipts and cash on hand, and the Fiscal Director responsible for reviewing the SF-425 reports approved the reports. Because DHS could not provide evidence demonstrating that cash on hand or cash receipts exceeding \$100 million should be reported for any quarter, and because our cash management testwork suggested that DHS requested federal funds on a reimbursement basis, as required, we concluded that cash receipts and cash on hand were significantly overstated.

We could not directly test cash on hand or cash receipts (which includes cash on hand at the end of the prior quarter), to determine the correct amounts of cash on hand and cash receipts that should have been reported during the audit period, because information regarding the amount of cash on hand attributable to a specific federal program was not readily available in Edison, the state's accounting system. Based on discussion with the Department Accounting Director, while cash on hand could be determined by aggregating certain data in the accounting system, this process would be very time consuming.

⁵³ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

⁵⁴ Positive cash on hand indicates that the department has federal funds available to use for expenditures, while negative cash on hand means the department needs to request federal funds for expenditures the department has already paid using non-federal funds.

According to the *Quick Reference Guide for Completing the Federal Financial Report in the Payment Management System*, cash on hand (line 10c) is the difference between cash receipts (line 10a) and cash disbursements (line 10b). The Payment Management System automatically calculates cash receipts, line 10a, based on the amount of federal funds requested through the system during the quarter, plus the amount of cash on hand (line 10c) from the prior quarter's SF-425 report. Although the amount reported as cash receipts is automatically calculated by the system, and DHS cannot adjust the number directly, the report's instructions ask the report preparer to contact account representative staff within HHS to correct any errors in the calculated amount. Based on discussion with the Fiscal Director, DHS did not contact HHS regarding the overstatements during the audit period.

Based on discussion with the Fiscal Director, he did not review cash receipts, line 10(a), since it is pre-populated by the Payment Management System, and he was not aware of any accounting records in Edison he could trace the number to. He also was not aware of any accounting records in Edison he could trace the amount of cash on hand to; therefore, he did not review cash on hand, line 10(c), except making sure the amount reported as cash on hand was mathematically correct ($10a - 10b = 10c$). In addition, according to the Fiscal Director, the federal government had not contacted DHS and raised the issue about the excess cash on hand reported on the SF-425 reports; therefore, he did not realize this matter was an issue.

B. DHS Fiscal Staff Did Not Report the Correct Quarters' Expenditures

For all four quarterly reports submitted for the audit period, July 1, 2015, through June 30, 2016, we also noted that the Accountant used the prior quarter's expenditures to calculate the cash disbursements for the current quarter, thereby creating a three-month timing difference in the financial information reported to HHS. According to the *Federal Financial Report Instructions*, the cumulative amount of federal fund disbursements as of the reporting period end date should be entered on line 10b, Cash Disbursements.

Specifically, when reporting cash disbursements for each grant program on the SF-425A, DHS fiscal staff had established an improper practice of using financial reports from the preceding reporting quarter to calculate the current quarter's cash disbursements for each federal program. The incorrect cumulative amount of cash disbursements from the SF-425A was then carried over to the SF-425 and reported on line 10b, Cash Disbursements.

For example, DHS fiscal staff submits a report called the ACF-696, *Federal Financial Report*, to HHS each quarter to report expenditures for the Child Care and Development Fund program (CCDF). When calculating the amount of CCDF cash disbursements to report on the SF-425 and SF-425A for the period ended June 30, 2016, the Accountant used the CCDF expenditures reported in the ACF-696 for the period ended March 31, 2016, rather than cash disbursements for the applicable quarter ending June 30, 2016. Likewise, for all other programs included on the SF-425, the Accountant used the prior quarter's expenditures as the amount to report for cash disbursements on the current quarter's SF-425 and SF-425A.

To calculate the cash disbursements in accordance with the report's instructions, the Accountant should have used the current quarter's cash disbursements, not expenditures from the prior quarter's reports.

C. Accrual Basis Expenditures Were Used to Report Cash Basis Disbursements

In addition, we found that the department reported accrual basis expenditures in line 10b, Cash Disbursements, of the SF-425 reports, rather than cash basis expenditures as required. According to the *Federal Financial Report Instructions*,

[d]isbursements are the sum of actual cash disbursements (of Federally authorized funds) for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments (of Federally authorized funds) made to subrecipients and contractors.

As noted above, for each federal program included in the SF-425A and SF-425 reports, the Accountant used information reported for the preceding quarter in other quarterly federal financial reports (such as the ACF-696 for CCDF) to determine the amount of cash disbursements to report on the SF-425A and SF-425 reports. Based on our audit procedures and discussion with DHS fiscal staff, the underlying quarterly financial reports for each federal program were prepared based on accrual basis expenditures recorded in Edison, the state's accounting system.

Because fiscal staff record Edison expenditures on an accrual basis, Edison expenditure records alone cannot be used to determine the amount that should be reported as cash disbursements on the SF-425 reports. Instead, DHS fiscal staff would need to perform calculations to adjust expenditures recorded on an accrual basis to cash disbursements based on the definition of cash disbursements in the SF-425 report's instructions.

Although the timing differences between cash disbursements and accrual basis expenditures may have been insignificant, based on our discussion with the Department Accounting Director, he was not aware of whether DHS fiscal staff had performed an analysis to determine the effect of reporting expenditures using the accrual basis instead of the cash basis. The Department Accounting Director stated that he agreed that this would be a problem for the June 30 SF-425 report with residual effects possible on the September 30 report; however, he stated that the cumulative difference should be negligible. In addition, according to the Department Accounting Director, sufficient records existed in the accounting system to determine the correct amount of cash disbursements; however, aggregating the data would be very time consuming. Without evidence that management has done its due diligence to establish that the timing differences are insignificant, we cannot determine whether the cumulative difference was negligible.

Because information needed to convert expenditures on an accrual basis to disbursements on a cash basis was not readily available, we were unable to determine what amounts should have been reported for line 10b, Cash Disbursements. Because DHS fiscal staff provided no evidence demonstrating what effect using the incorrect accounting basis would generally be expected to have on the SF-425 reports, we were unable to quantify the potential effect that this issue would have on the reports submitted during the audit period.

Cause

Regarding lines 10a, Cash Receipts, and 10c, Cash on Hand, based on discussion with the Department Accounting Director, DHS fiscal staff reached out to the federal contact and discussed the SF-425 report and the amounts reported for each of the fields. According to the federal contact, an error was reported in 2013 that was somehow affecting the amount in line 10a, Cash Receipts. The federal contact was not sure how the error could have affected Cash Receipts since the state is locked out from making any changes to the line.

Regarding using the prior quarter's information to report the current quarter's cash disbursements, based on discussion with the Accountant who prepares the SF-425 reports, the due dates for the underlying programs' financial reports always overlap with the due dates of the SF-425 report. For example, the SF-425 is due 30 days after the end of the quarter, but the underlying financial reports for one of the programs included in the SF-425 was not due until 45 days after the end of the quarter. Because of this timing issue, all of the underlying programs' financial reports were generally not prepared and thus were unavailable when the Accountant prepared the overall SF-425 reports, so the Accountant used the prior quarter's financial reports to prepare the current quarter's SF-425 report. Based on discussion with the Department Accounting Director, this practice, as well as the use of accrual basis expenditures to report cash basis disbursements, appeared to be the result of historical guidance provided by a fiscal director who was no longer with the department.

Effect

When DHS's fiscal staff fails to report accurate federal cash status on the SF-425 report, neither DHS nor HHS can make accurate programmatic and fiscal decisions based on the report. In order to comply with applicable reporting requirements and to permit HHS to appropriately monitor DHS's financial status with respect to the programs included on the SF-425 reports, DHS fiscal staff must ensure that the information included in SF-425 reports is complete and accurate.

Recommendation

The Commissioner of DHS and the Department Accounting Director should ensure that fiscal staff prepares the SF-425 reports in accordance with the report's instructions. The Department Accounting Director should develop an adequate, documented process for converting Edison expenditures recorded on an accrual basis to cash disbursements and for determining the amount of federal cash on hand for each federal program included in the SF-425 reports. The Department Accounting Director should ensure that DHS fiscal staff includes the correct quarters' financial information in reports submitted to the federal government.

Management's Comment

The Department concurs.

The Department concurs with the finding and took the following corrective action to address the issues noted:

- The variance noted resulted from the underreporting of expenditures in 2013 did not represent actual cash on hand.
- An analysis of expenditures reported in Fiscal Year 2013 has been performed, and the appropriate corrections made to the December 31, 2016 report. The current quarter's change in cash receipts will be verified going forward.
- The reporting process has been revised. Reports are completed based on general ledger information for the appropriate reporting quarter.

The Department will also perform an analysis to determine the appropriate adjustments.

Finding Number	2016-046
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
Federal Award Identification Number	G1401TNCCDF, G1501TNCCDF, and G1601TNCCDF
Federal Award Year	2014 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	2015-047
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services submitted ACF-696 Federal Financial Reports to the U.S. Department of Health and Human Services that were inadequately reviewed, inaccurate, and unsupported

Background

The U.S. Department of Health and Human Services (HHS) provides funds to states, territories, and Indian tribes to increase the availability, affordability, and quality of child care services through the Child Care and Development Fund (CCDF) cluster of programs. CCDF funds subsidize child care for low-income families where the parents are working or attending training or educational programs, as well as activities to promote overall child care quality for all children, regardless of subsidy receipt.

CCDF consists of three funding streams: Discretionary Funds, Mandatory Funds, and Matching Funds. Additionally, under the Temporary Assistance for Needy Families (TANF) program, a state may transfer TANF funds to CCDF, in which case the transferred funds are treated as Discretionary Funds.

HHS requires the Department of Human Services (DHS) to complete and submit a quarterly financial status report (ACF-696) presenting cumulative expenditures by funding stream for each separate grant award. HHS requires DHS to submit the reports 30 days after the end of each quarter.

During our audit period, July 1, 2015, through June 30, 2016, once the former Accountant prepared each report, the former Fiscal Director reviewed and approved the report.⁵⁵

During the prior audit, we found that the former Accountant reported inaccurate information for line 4, federal share of unliquidated obligations, and line 7, unobligated balance, for the ACF-696 reports tested. Department management did not concur with the prior audit finding, but

⁵⁵ After the end of the audit period and during our audit fieldwork, both the Accountant and the Fiscal Director separated from the department.

management's comment did not address the reporting errors we noted. During the current audit, we found that the former Accountant reported accurate information for line 4, federal share of unliquidated obligations, and line 7, unobligated balance; however, we found that the former Accountant reported inaccurate and unsupported amounts for other lines of the report.

Conditions and Criteria

We observed the former Fiscal Director's review and approval process for the ACF-696 reports. We also randomly selected and tested the ACF-696 report for the quarter ended March 31, 2016, for the CCDF grant award provided for federal fiscal year October 1, 2015, through September 30, 2016 (federal fiscal year 2016). Based on our audit procedures, we found that the former Fiscal Director did not adequately review ACF-696 reports (Condition A), and the former Accountant reported inaccurate and unsupported amounts (Condition B).

Condition A. Inadequate Review of ACF-696 Reports

Prior to the former Fiscal Director's separation from the department, we discussed the review and approval process with the former Fiscal Director and observed her re-perform her review of the June 30, 2016, ACF-696 report. Although the former Fiscal Director described a review process prior to us observing her re-perform the process, she was unable to perform the review procedures as described. The former Fiscal Director was unable to trace the amounts included in the ACF-696 report to source documentation and needed to consult the former Accountant to demonstrate how to do so. Additionally, the former Fiscal Director did not re-perform any Edison queries to ensure the accuracy of the amounts that the former Accountant included in the supporting documentation.

Fiscal staff calculate the ACF-696 expenditures by adding the current quarter's expenditures to the expenditures reported on the prior quarter's report. As a result, it is essential that the department's review process is capable of identifying and correcting any errors in draft reports before the reports are submitted to HHS. Otherwise, any errors made on prior reports appear in subsequent reports as well. Due to the importance of the review process for the preparation of this report, we concluded that this matter represented a material weakness in internal controls over reporting for CCDF. Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 516(a)(1), requires us to report significant deficiencies and material weaknesses in internal control over major programs as audit findings.

Condition B. Amounts reported were inaccurate and unsupported

Based on a random, nonstatistical sample, we tested the ACF-696 report for the quarter ended March 31, 2016, for the award for federal fiscal year October 1, 2015, through September 30, 2016 (federal fiscal year 2016). We identified five categories of reporting errors during our testwork:

1. inaccurate funding sources,
2. inaccurate amounts reported as TANF Transfers,
3. misclassification of pre-kindergarten (pre-K) expenditures,

4. misclassification of licensing and assessment activities, and
5. inadequate documentation for reported indirect costs.

Inaccurate Funding Sources

Based on our testwork, we found that the former accountant did not correctly report the funding sources for expenditures. We identified numerous errors related to the reported funding sources, including the following:

- In line 1(g), direct services, the former Accountant included \$10,754,147 as federal fiscal year 2016 Mandatory Funds expenditures, even though the expenditures were actually charged to Discretionary Funds from multiple grant award years, Mandatory Funds from prior grant award years, and TANF transfers during federal fiscal year 2016.
- In line 1(g), direct services, the former Accountant included \$7,019,161 in expenditures as federal fiscal year 2016 Matching Funds expenditures, even though the expenditures were actually charged to Matching Funds from prior years' grant awards and TANF transfers during federal fiscal year 2016.
- In line 1(b), quality activities excluding targeted funds, the former Accountant incorrectly reported \$1,926,730 in expenditures charged to federal fiscal year 2015 Mandatory Funds as expenditures charged to federal fiscal year 2016 Mandatory Funds.
- In line 1(a), child care administration, the former Accountant incorrectly reported \$540,325 in Discretionary Funds expenditures for federal fiscal year 2016 as Matching Funds expenditures for federal fiscal year 2016. For the purposes of the report, the former Accountant also reclassified \$82,461 in federal fiscal year 2016 Matching Funds expenditures as federal fiscal year 2016 Discretionary Funds expenditures. We identified no corresponding adjusting entry in Edison, the state's accounting system, to record the adjustment.
- In line 1(b), quality activities excluding targeted funds, the former Accountant reported \$1,026,962 as expenditures of Matching Funds when the expenditures were actually Discretionary Funds expenditures.

Based on discussion with the Lead Mandatory Grants Management Specialist within HHS's Administration for Children and Families (ACF), ACF permits DHS to reclassify the funding sources of expenditures (even if the reclassification occurred after the end of the reporting period), but fiscal staff should record the reclassifications in DHS's accounting records. For the errors identified above, the former Accountant's supporting documentation did not identify the journal entries used to reclassify expenditures between funding sources after the reporting period, and we could not identify the journal entries used to reclassify these expenditures in the department's accounting records. As a result, we concluded that the former Accountant reported inaccurate funding sources for these expenditures.

According to the *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)*,

The ACF-696 form has separate columns for reporting of expenditures from each of [the] component funding streams. All amounts reported in [the] columns . . . must be actual obligations or expenditures made under the State's plan and in accordance with all applicable statutes and regulations.

Inaccurate Amounts Reported as TANF Transfers

Based on our review of the department's accounting records, the former Accountant should have reported \$9,321,538 (instead of \$0) on line 6, transfer from TANF, for the report tested. Instead of reporting the expenditures based on the department's official accounting records in the state's accounting system, the former Accountant made adjustments in the spreadsheet used to prepare the ACF-696 and reported TANF transfer expenditures as expenditures of Matching and Mandatory Funds.

Misclassification of Pre-kindergarten Expenditures

According to the internal instructions that the former Accountant prepared for compiling the ACF-696 report, the department's established practice was to report pre-K expenditures on line 1(h)(3), all other nondirect services. The federal report instructions, however, do not include pre-K expenditures as one of the seven categories of costs that are included on line 1(h)(3). Specifically, *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)* states,

The following sub-categories for Non-Direct Services are included on the ACF-696 form reporting expenditures under for Line 1(h): . . .

Line 1(h)(3) - All Other Non-Direct Services

- Preparation/participation in judicial hearings
- Recruitment, licensing, inspection, reviews, and supervision of child care placements
- Training of child care providers on billing and claims processes associated with the subsidy program
- Reviews and supervision of child care placements
- Rate setting
- Resource and referral services
- Training of child care staff on CCDF administrative issues

Pre-K expenditures do not constitute one of the seven activities identified above. According to the federal report instructions, "The direct services category consists **solely** [emphasis in original] of expenditures for child care subsidies to eligible children," and "Expenditures from

State-funded public Pre-K services claimed as CCDF Match or [maintenance of effort] must be for services to children from families who meet CCDF eligibility criteria.” Because pre-K expenditures reported in the ACF-696 report are for services to children who meet CCDF eligibility criteria and child care is inherently a component of pre-K services, pre-K expenditures should be reported on line 1(g), direct services, rather than line 1(h)(3), all other non-direct services.

As a result of the incorrect treatment of pre-K expenditures, the former Accountant erroneously reported \$3,734,364 charged to state Matching Funds and Maintenance of Effort (MOE) funds for federal fiscal year 2016 on line 1(h)(3), all other nondirect services.

Misclassification of Licensing and Assessment Activities

According to the internal instructions that the former Accountant used for preparing the ACF-696 report, the department’s established practice was to report costs for the department’s Child and Adult Care Licensing and Child Care Assessment divisions on line 1(b), quality activities excluding targeted funds. The Child and Adult Care Licensing division and the Child Care Assessment division are responsible for licensing and monitoring child care agencies caring for more than four children and for completing annual assessments on all licensed child care agencies, respectively. According to the *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)*, “**Improving** [emphasis added] the monitoring of compliance with, and enforcement of, applicable requirements,” is an example of quality activities included on line 1(b); however, “Recruitment, licensing, inspection, reviews, and supervision of child care placements” should be included on line 1(h)(3), all other nondirect services. Since the Child and Adult Care Licensing and Child Care Assessment divisions perform ongoing licensing and related monitoring activities, not activities focused on improving the quality of monitoring activities, the costs associated with these divisions should be reported on line 1(h)(3). As a result, we found that the former Accountant incorrectly reported \$1,641,301 in costs for the Child Care Assessment division on line 1(b), quality activities excluding targeted funds, instead of line 1(h)(3), all other nondirect services.

Inadequate Documentation for Reported Indirect Costs

We found that the former Accountant did not always report indirect costs based on supporting documentation due to an error in the process for compiling the report. Specifically, instead of classifying all costs in the report based on supporting documentation, the former Accountant’s practice was to arbitrarily assign half of the indirect costs for the department’s Family Assistance division to line 1(a), child care administration, and the other half to line 1(h)(2), certificate program costs/eligibility determination. This improper practice was documented in the internal instructions the former Accountant prepared for creating the report.

According to the *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)*, costs associated with eligibility determination and re-determination should be included under line 1(h)(2), certificate program costs/eligibility

determination; line 1(a), administrative activities, should not include costs associated with eligibility determination and re-determination.

Based on review of the department's cost allocation plan, which provides narrative descriptions of some activities performed by individuals within the Family Assistance division, we concluded that costs associated with some activities performed by Family Assistance staff should be reported as child care administration costs, while other activities should be reported as certificate program costs/eligibility determination costs. Fiscal staff should, however, report accurate cost amounts for these two lines based on supporting documentation instead of arbitrarily assigning half of the Family Assistance division's indirect costs to each line.

Since the department's cost allocation plan did not include descriptions of all subdivisions within Family Assistance, we were unable to determine the amounts that should be reported on each line of the report. For the report we tested, the Family Assistance costs totaled \$608,620.

Summary of Results

See the table below for the differences between the reported and the correct amounts for the ACF-696 report for the 2016 grant award for the period ended March 31, 2016:

Funding Source	Line	Line Description	Reported Amount	Auditor's Calculation	Difference
Mandatory	1(b)	Quality Activities Not Excluding Targeted Funds	\$3,845,049	\$0	\$3,845,049
Mandatory	1(g)	Direct Services	18,776,229	0	18,776,229
Matching	1(a)	Child Care Administration	457,864	0	457,864
Matching	1(b)	Quality Activities Not Excluding Targeted Funds	2,049,269	247,070	1,802,199
Matching	1(g)	Direct Services	12,160,863	5,018,420	7,142,443
Matching	1(h)(3)	All Other Non- Direct Services	1,718,080	0	1,718,080
Discretionary	1(a)	Child Care Administration	623,048	904,710	(281,662)
Discretionary	1(b)	Quality Activities Not Excluding Targeted Funds	867,399	278,112	589,287
Discretionary	1(g)	Direct Services	3,726,800	18,145,736	(14,418,936)
Discretionary	6	Transfer from TANF	0	9,321,538	(9,321,538)
Discretionary	1(h)(3)	All Other Non- Direct Services	0	1,641,301	(1,641,301)
MOE	1(a)	Child Care Administration	3,286,274	2,948,876	337,398

Funding Source	Line	Line Description	Reported Amount	Auditor's Calculation	Difference
MOE	1(b)	Quality Activities Not Excluding Targeted Funds	71,319	67,467	3,852
MOE	1(g)	Direct Services	2,992,665	5,922,725	(2,930,060)
MOE	1(h)(1)	Systems	1,398,852	1,301,183	97,669
MOE	1(h)(3)	All Other Non-Direct Services	2,016,284	0	2,016,284
Total Differences					\$8,192,857

Cause

According to the former Fiscal Director, assigning half of Family Assistance costs to line 1(a), child care administration, and the other half to line 1(h)(2), certificate program costs/eligibility determination was the department's procedure for several years; it was the same ratio that was used by the former Fiscal Director's predecessor, and there was no documentation to support the split. We requested information from department management regarding the causes of the other matters noted above, but they did not respond to our inquiries.

Effect

According to Title 45, CFR, Part 98, Section 92(b), upon a final determination that the state has failed to substantially comply with the Child Care and Development Block Grant Act, the CCDF regulations, or the CCDF Plan, HHS may impose sanctions to disqualify the department from the receipt of further CCDF funding or an assessment of a penalty of not more than 4% of the state's Discretionary Fund allotment for a fiscal year. HHS allotted the state \$54,653,989 of Discretionary Funds for federal fiscal year 2016; a penalty of 4% of this allotment would equate to \$2,186,160.

Additionally, federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in section 200.207, "Specific conditions":

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or

(6) Establishing additional prior approvals.

Furthermore, 2 CFR 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Department Accounting Director⁵⁶ should establish internal controls over reporting that provide reasonable assurance that fiscal staff

- prepare the ACF-696 reports in accordance with HHS's instructions,
- ensure the reported amounts agree with or reconcile to the department's accounting records in Edison, and
- adequately review and approve the reports prior to submission.

This process should include revising the department's instructions for preparing the report.

Management's Comment

The Department concurs in part.

⁵⁶ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Condition A

Inadequate Review of ACF-696 Reports

The Department concurs.

The Department implemented corrective actions to address the deficiencies noted in the finding. A new report preparation template has been created and was used to report ACF-696 data beginning with the September 30, 2016 report. Source data from the general ledger is inserted into the template and the correct fields in the ACF-696 report are populated. Additional review process over the preparation of the report was also placed in operation for the September 30, 2016 report. New staff and management oversight has also been assigned to this area.

Condition B

For the following issues: *inaccurate funding sources, inaccurate amounts reported as TANF transfer, misclassification of pre-kindergarten (pre-K) expenditures, and inadequate documentation for reported indirect costs*, the Department concurs. Please see response provided for Condition A.

For the following issue: *Misclassification of Licensing and Assessment Activities*, the Department concurs in part.

The Department does not concur that assessment activities do not constitute quality activities (excluding targeted funds). The Child Care Assessment division completes an assessment as it relates to the quality of the Child Care provider. This assessment is used to rate a provider based on a star rating system to alert parents to the significant steps the facilities have taken to achieve a higher quality service rating. The assessment includes the development of an improvement plan based on the results of the assessment. The plan includes many criteria all of which are designed to improve the quality and availability of childcare.

The Department concurs that expenditures related to the Child and Adult Licensing division should be included on line 1(h)(3) of the ACF-696 report. These expenditures have been reclassified for the reporting period ending September 30, 2016.

Finding Number	2016-047
CFDA Number	93.596
Program Name	Child Care and Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Federal Award	G1501TNCCDF and G1601TNCCDF
Identification Number	
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Period of Performance
Repeat Finding	2015-047
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.596	G1501TNCCDF	\$468,673
93.596	G1601TNCCDF	\$11,195

As noted in the prior audit, the Department of Human Services did not comply with period of performance requirements for the Child Care and Development Fund, resulting in questioned costs of \$479,868

Background

The Child Care and Development Fund (CCDF) 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.

CCDF is composed of three funds: the Matching fund, the Discretionary fund, and the Mandatory fund. 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, if the department does not obligate the CCDF funds available for Tennessee, 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. 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 our current audit 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, 2014, through September 30, 2015 (federal fiscal year 2015); and
- CCDF expenditure transactions during the audit period to determine whether the department complied with period of performance requirements for CCDF.

During the prior audit, we found that the former Director of Child Care Services⁵⁷ and fiscal staff

- did not ensure that the department complied with Matching fund requirements by obligating all Mandatory funds timely,
- did not ensure that all federal Matching funds were obligated in the proper federal fiscal year,
- did not ensure that the department adhered to period of performance requirements when charging expenditures to the CCDF award, and
- did not comply with federal reporting requirements.

Management did not concur with the finding but stated that the department will improve monitoring to ensure timeliness. During the current audit, we found that the department complied with Matching fund requirements by obligating all Mandatory funds timely; however, based on the procedures we performed during the current audit, we found that management still

- did not ensure that all federal Matching funds were obligated in the proper federal fiscal year, and
- that the department adhered to period of performance requirements when charging expenditures to the CCDF award.

The reporting portion of the prior audit finding is addressed in finding 2016-046.

Condition and Cause

The Department Accounting Director⁵⁸ did not ensure that all federal Matching funds were obligated in the proper federal fiscal year. Specifically, the department obligated \$468,673 in federal Matching funds granted to the state for FFY 2015 in the subsequent federal fiscal year, in violation of federal regulations.

⁵⁷ Based on discussion with department staff, the former Child Care Services Director resigned in June of 2016.

⁵⁸ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing DHS's fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

Additionally, we found that the Department Accounting Director did not ensure that the former Accountant⁵⁹ adhered to period of performance requirements when charging expenditures to the CCDF award provided for federal fiscal year 2015. Specifically, the former Accountant improperly transferred \$11,195 in expenditures that were obligated in federal fiscal year 2015 from federal fiscal year 2015 Matching funds to federal fiscal year 2016 Matching funds. Because the period of performance for federal fiscal year 2016 Matching funds did not begin until federal fiscal year 2016, expenditures with federal fiscal year 2015 obligation dates cannot be transferred to the federal fiscal year 2016 award.

DHS fiscal staff created a process during the audit period, July 1, 2015, through June 30, 2016, that involved reviewing expenditure records to identify and correct obligations charged to the incorrect grant award. This process resulted in correcting the issue that led to the majority of the \$34,563,335 in questioned costs in the prior audit finding; however, the process did not identify all improper obligations. Specifically, the obligation date was determined by a field in the department's accounting data called the "service date." While the service date field could be used to determine the obligation dates for many types of transactions, the field did not identify obligation dates for adjusting entries. As a result, if fiscal staff create an adjusting entry, but fail to recognize that the adjusting entry includes an improper obligation, then obligation errors may be overlooked. To avoid these errors, fiscal staff must manually review the adjusting entries to specifically identify potential obligation errors. It does not appear that the department manually reviewed the adjusting entries for previously unidentified errors.

Criteria

According to Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 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 Title 45, CFR, Part 98, Section 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 75.2.

We could identify no applicable state or local law that defines "obligation"; therefore, in accordance with Title 45, CFR, Part 75, Section 2,

. . . *obligations* means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period.

According to Title 45, CFR, Part 98, Section 60(d)(6),

⁵⁹ After the end of the audit period and during our audit fieldwork, the Accountant separated from the department.

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 . . .

Effect

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 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 Title 45, CFR, Part 98, Section 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

We questioned a total of \$479,868 in federal Matching funds that the department improperly obligated during the audit period, July 1, 2015, through June 30, 2016. Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

Title 2, CFR, Part 200, Section 84, defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Department Accounting Director should ensure that staff preparing and reviewing manual journal entries are adequately trained and are aware that, when expenditures are moved from one grant award to another, the obligation dates of the underlying transactions must be carefully considered in order to ensure compliance with period of performance requirements.

Management's Comment

The Department concurs.

Staff preparing and reviewing journal entries for the Child Care and Development Fund (CCDF) have been provided with a copy of 45 CFR section 98 (period of performance requirements) and training has been provided on the regulations. The order in which the Mandatory, Matching, and Discretionary awards are obligated and subsequently liquidated has also been modified. The modification allows for compliance with the period of performance requirements while also minimizing the amount of journal entries that must be performed to ensure compliance with the requirements. The Department has implemented a process to query the general ledger (Edison) in order to detect and correct expenditures that were obligated outside of the period of

performance of a federal award. A journal entry to correct the questioned costs identified in the finding will be entered and reviewed by March 31, 2017. The Administration for Children & Families (ACF) 696 report will be revised to reflect the correction. The Department expects the revised report to be submitted by March 31, 2017.

Finding Number	2016-048
CFDA Number	10.558, 93.575, and 93.596
Program Name	Child and Adult Care Food Program Child Care and Development Fund Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	2015IN109945, 201616N109945, G1501TNCCDF, and G1601TNCCDF
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-044
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award Identification Number	Amount
CFDA		
10.558	2015IN109945	\$357
10.558	201616N109945	\$87
93.575 and 93.596	G1501TNCCDF and G1601TNCCDF	\$353,594

As noted in the prior audit, the department has not ensured controls were effective to recover overpayments from child care providers and subrecipients identified by the department's External Program Review, resulting in questioned cost of \$354,038

Background

The Child Care Certificate Program provides subsidies to families in several categories of assistance with the goal of meeting two primary functions: 1) a support system to allow families to work and/or attend school and 2) a means of promoting the physical, emotional, educational, and social development of children. The Department of Human Services' (DHS) External Program Review⁶⁰ staff are responsible for monitoring child care providers via the Child Care Certificate Program, which is funded through the U.S. Department of Health and Human Services' Child Care Development Fund.

The Child and Adult Care Food Program (CACFP) is funded by the U.S. Department of Agriculture and administered on the state level by DHS. As a pass-through entity for CACFP, 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 DHS through the Tennessee Food Program online applications. Department management is responsible for monitoring the subrecipients' activities to provide

⁶⁰ The External Program Review division became the Audit Services division as of October 1, 2016.

reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. 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 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 a claim overpayment or underpayment until several months after the payment, if it detects the error at all.

EPR's Current Review Process

EPR performs two types of reviews 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, including referrals, calls from the public, or "red flags" (e.g., unrealistic or inconsistent attendance documentation submitted to the department).

Once a review is complete, EPR sends an on-site review letter to the child care provider and to other DHS staff within Child Care Services, Program Integrity, and Fiscal Services⁶¹ for proper follow-up. Child care providers are required to submit to the Child Care Certificate Program Manager a corrective action plan that outlines strategies to correct any deficiencies identified during the external program review and arrange a repayment plan for any 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 may be withheld until the overpayments are recovered.

For CACFP, DHS's EPR staff completes a CACFP review guide during each monitoring visit. This review guide is intended to capture details of subrecipient compliance or noncompliance with federal regulations. After completion of a monitoring visit and subsequent management review, DHS releases a monitoring report. Each report identifies either subrecipient compliance or noncompliance with federal regulations. For each report identifying subrecipient noncompliance, EPR staff includes a finding for each instance of noncompliance and the amount of costs required to rectify the noncompliance, also known as questioned costs. Subrecipients are instructed to submit repayment in the form of a check to DHS fiscal staff or a revised meal reimbursement claim.

Condition and Criteria A

We analyzed the entire population of child care providers with an outstanding overpayment balance with DHS as of June 30, 2016. Based on our analysis, we found that the Fiscal Director did not recover overpayments, totaling \$353,594, identified by EPR staff for 44 child care providers. In fact, the department continued to make child care payments to the providers even

⁶¹ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions.

though the outstanding overpayments were not resolved. As a result of our review, we determined that the department's Fiscal Services has not yet ensured controls are effective to collect child care overpayments identified through the department's external monitoring.

We reported in the prior audit that management did not ensure overpayments identified by EPR were recovered and the department continued to pay providers who owed the department a refund for child care services. Management concurred with the amount of questioned costs in the prior audit finding; however, management did not implement any new procedures to ensure that fiscal staff collect overpayments from providers.

Risk Assessment

We reviewed DHS's November 2015 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 and based on the repeat finding, we determined that management should reconsider the likelihood and impact of this risk. The department is in violation of federal regulations when overpayments are not recovered and this negatively impacts funds available for other providers. Additionally, when the department does not ensure providers implement corrective action, including the repayment of funds, the department's risk of noncompliance, errors, fraud, waste, and abuse of federal requirements is increased.

Criteria

According to clauses C.7, C.8, and C.9 in the Provider Agreement, DHS has the authority to recover 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.

Condition and Criteria B

We selected a nonstatistical, random sample of 60 CACFP EPR monitoring reports representing 57 subrecipients from a population of 139 EPR monitoring reports released during the audit period. For the 60 monitoring reports selected, we reviewed the EPR monitoring files that supported each report. Of the 60 monitoring reports tested, 48 monitoring reports contained a request for payment. For 3 of the 48 monitoring reports tested (6%), we noted that department staff did not recoup any questioned costs provided to the subrecipients in the monitoring report.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Section 226, Part 14(a),

the State agency shall notify the institution of the reasons for any disallowance or demand for repayment, and allow the institution full opportunity to submit evidence on appeal as provided for in §226.6(k). Minimum State agency collection procedures for unearned payments shall include:

(1) Written demand to the institution for the return of improper payments; (2) if, after 30 calendar days, the institution fails to remit full payment or agree to a satisfactory repayment schedule, a second written demand for the return of improper payments sent by certified mail return receipt requested; and (3) if, after 60 calendar days, the institution fails to remit full payment or agree to a satisfactory repayment schedule, the State agency shall refer the claim against the institution to appropriate State or Federal authorities for pursuit of legal remedies.

Cause

The department has not implemented effective internal controls to ensure it collects outstanding overpayments identified in EPR monitoring efforts and to ensure it does not continue to pay child care providers or subrecipients that owe a refund resulting from overpayments.

Effect

The lack of internal controls increases the risk that the department will not recoup federal funds for known questioned and disallowed costs. Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, CFR, Part 200, Section 338, “If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions,” including, as described in Section 200.207, “Specific conditions”:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).

- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Questioned Costs

According to 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. Total questioned costs for overpayments identified and not collected for Condition A above are \$353,594. We questioned costs totaling \$444 for Condition B noted above.

2 CFR 200.516(a)(3) requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program. Combined with the questioned costs delineated in findings, 2016-020, 2016-021, and 2016-022 known questioned costs for the allowable costs/cost principles compliance requirement for the CACFP program exceed \$25,000.

Recommendation

The Commissioner and the Fiscal Director should strengthen controls to ensure the department recovers all known questioned and disallowed costs identified by the EPR staff and to ensure the department adjusts future payments to child care providers and subrecipients to recover outstanding debts owed the department due to overpayments.

The Commissioner and the Fiscal Director should ensure that the department recovers \$354,038 from the providers and subrecipients for the issues noted in the finding. If child care providers and subrecipients continue to submit inaccurate claims, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

The Commissioner and the Fiscal Director 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 and top management 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

The Department concurs in part.

The Department concurs that the overpayments for the 3 food program subrecipients totaling \$444 were not recovered timely.

The Department recouped \$381 from two of the three subrecipients. The remaining recoupment of \$63 is underway. The Department has revised the overpayment collections policy for the food

program and improved its internal controls. The revised policy clearly indicates the process to recoup funds resulted from the EPR's reviews.

The Department concurs that the Child Care Certificate Program internal controls need to be strengthened to ensure overpayments identified in the Department's EPR reports are recovered timely.

The Department does not concur with the questioned costs amount. The Department's internal controls identified the questioned costs through monitoring. The costs were already questioned by the Department through its monitoring; to question it again would be duplicative.

Only two EPR's reports with overpayment totaling \$5,810 were identified as applicable to the state fiscal year 2016, and both were issued in August 2016. The Department has already recouped \$1,360.63, and in process of recouping the remaining \$4,679.27.

The Child Care Certificate Program management will initiate a tracking system for overpayments. This tracking method will be included in a policy which is currently under revision through the Centralized Policy and Procedures Unit (CPPU) and pertains specifically to child care questioned costs. Tracking will be a spreadsheet utilized by program, EPR, and fiscal personnel to log and reconcile questioned costs. On a monthly basis, communication between the responsible personnel regarding the spreadsheet will occur for update on the recoupment of overpayments. This process will be implemented in SFY18 in conjunction with the revised policy for overpayments and provider contracts.

Auditor's Comment

Management states that because they questioned costs in the monitoring process that for the auditor to question costs is duplicative.

While we agree that the Department identified some of the same questioned costs as a result of their monitoring visit, management has still not recouped the overpayments from the providers or otherwise resolved the overcharges to this federal grant. According to 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	2016-049
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
Federal Award	G1401TNCCDF, G1501TNCCDF, and G1601TNCCDF
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.596	G1601TNCCDF	\$172,627

The Department of Human Services overpaid child care service providers and did not perform case reviews of eligibility determinations and redeterminations consistently, resulting in known federal questioned costs of \$172,627

Background

The Tennessee Department of Human Services (DHS) administers the Child Care and Development Fund (CCDF), a federal program that provides subsidies for child care. The state's Child Care Certificate Program, which is funded from the CCDF, assists Families First (Temporary Assistance for Needy Families) participants, parents transitioning off of the Families First program, teen parents, and other individuals to obtain child care. To participate in the Child Care Certificate Program, children must be declared eligible by DHS staff or by the Department of Children's Services' (DCS) staff for children in foster care or protective services. In addition to income limits and other eligibility requirements, children must be under the age of 13 to participate in the program unless they are under court supervision or incapable of self-care.

Child care providers request payment for services on a biweekly, semi-monthly, or monthly basis by submitting child care attendance forms for eligible children to DHS. DHS's Division of Fiscal Services uses the forms in conjunction with provider and client eligibility data to process payments to each provider.

DHS is responsible under CCDF requirements for establishing child care provider payment rates. DHS publishes a schedule of the rates, which are based on a variety of factors including the county where services are provided, the age of the child in care, and the type of child care provider. Providers' payment rates are also affected by the providers' star-quality rating. The Star-Quality Child Care Program is a voluntary program that rewards child care agencies who exceed minimum licensing standards. DHS staff use the criteria in the payment rate schedules to assign a payment rate for each child. When child care providers submit attendance forms, the

department's fiscal services staff pay the child care providers based on each child's payment rate and the number of days the child received child care services.

The department grouped all counties in Tennessee into eight districts. Staff within each district conduct case reviews throughout the year to ensure that the department's eligibility determinations for children are appropriate. Based on discussion with department staff and review of supporting documentation, field supervisors select samples monthly for each district and evaluate whether CCDF staff correctly determined the eligibility of children participating in the program. The sample includes both original eligibility determinations and redeterminations. For each case reviewed, Child Care Specialists complete a questionnaire that documents any eligibility errors noted during the case review.

Because the department determines the provider's payment rate for each child depending on various factors (such as the child's age, whether school is in or out, the provider's quality rating, etc.) and those factors change periodically, it is critical for the department's internal control processes, such as the monthly case reviews, to identify and correct instances in which department staff have assigned the incorrect payment rate to a child.

Condition and Cause

In order to determine if DHS complied with federal requirements related to eligibility for children receiving subsidized child care, we obtained all child care provider payment records and certain individual eligibility information contained in the department's Tennessee Child Care Management System (TCCMS) for the period July 1, 2015, through June 30, 2016, and performed three procedures:

1. sampling procedures to determine whether department staff performed case reviews to ensure that eligibility determinations and redeterminations were appropriate;
2. an analysis to determine whether DHS staff calculated provider rates and payments in accordance with program requirements; and
3. an analysis of all payments that DHS staff made on behalf of individuals over the age of 12.

Based on the results of our testwork, we found that the former Child Care Services Director⁶² did not ensure that department staff performed case reviews of eligibility determinations and redeterminations consistently. We also found that the former Child Care Services Director did not ensure that payments to child care providers were calculated and paid in accordance with program requirements and that all children over the age of 12 were eligible to receive subsidized child care, resulting in federal questioned costs of \$172,627.

Case Reviews

To obtain information regarding the operating effectiveness of the department's internal controls over eligibility, we selected a random, nonstatistical sample of 60 payments made to CCDF child

⁶² Based on discussion with department staff, the former Child Care Services Director resigned in June of 2016.

care providers from a population of 465,807 payments to child care providers during the audit period, July 1, 2015, through June 30, 2016. For each payment, we identified the month the child care services were provided as well as the district in which the provider was located. For each district and month combination, we examined case review data for the associated combination to determine whether department staff conducted case reviews to ensure that eligibility determinations and redeterminations were appropriate.⁶³ Based on the testwork performed, DHS staff did not conduct monthly reviews of eligibility determinations and redeterminations for CCDF cases consistently throughout the year. Specifically, we noted that for 17 of 60 payments (28%), department staff did not conduct monthly reviews of eligibility determinations and redeterminations for the applicable district and month.

Payments Analysis

We analyzed the transaction records of all payments totaling \$88,744,004 for the Child Care Certificate Program, which represented payments that were made to child care providers for services provided July 1, 2015, through June 30, 2016, to determine whether provider payments were calculated and paid in accordance with program requirements. Specifically, we used data analysis techniques to calculate an expected payment amount for each provider for each child based on the eligible child's age, provider's quality rating, the type of child care provider, and the other factors the department used to determine the payment amount. We then identified provider payments for specific children that were in excess of our calculated expected provider payment for those children. To determine whether our calculations for identifying overpayments were correct, we shared a sample of 25 transactions identified as excess payments with department staff on November 15, 2016. Based on discussion with staff and review of information in TCCMS, we confirmed that all 25 items were errors. Based on discussion with staff, we also determined that the information in TCCMS represented the department's source documentation, and TCCMS contained the information that staff used to confirm that an item was an overpayment. Since our calculations already reflected the information contained in TCCMS, we concluded that the overpayments identified by our analysis represented actual overpayments, not expected overpayments. Based on our testwork, we found that for \$170,765 of \$88,744,004 tested (0.19%), DHS overpaid the child care providers.

Types of Overpayments

Our testwork revealed that the overpayments were the result of two types of errors: duplicate payments and overpayments resulting from the department paying the provider an excessive rate. Excessive rate errors occurred when the department paid the provider a higher rate for a child than the provider should have been paid based on the department's provider payment rate schedule. For example, in accordance with the department's provider payment rate schedule, the department pays providers less for child care services for a six year old than the department pays for child care services for a child who is five years old. If the department paid an excessive rate because the provider payment rate should have been lowered due to the child's age, for example,

⁶³ If testing a payment would have led to testing the same month and district combination more than once, the payment was disregarded and another payment was selected until 60 unique month and district combinations were tested.

we identified the payment as an overpayment due to excessive rates and identified the overpayment amount.

During our audit fieldwork, we shared a sample of transactions identified as excess payments with department staff on November 15, 2016. The purpose of providing the sample of our results was to determine whether the rationale and logic we used to develop our calculated expectations were accurate. After bringing these matters to the attention of department staff, we found that department staff reversed overpayments totaling \$16,063, of the \$170,765 excess that we had originally identified as potential overpayments above. Specifically, we reviewed transactions in TCCMS that department staff entered into the system after we provided the sample of transactions to the department. These transactions included reversals of \$16,063 in overpayments. Reversals ultimately result in the provider receiving a reduction in the amount paid to the provider for future child care services. Even though department staff initiated corrective action for the \$16,063 once we made them aware of these errors, staff had not identified these overpayments through established detective controls in the department's normal processes; therefore, we questioned all \$170,765 in overpayments.

DHS staff stated that the duplicate payments may have been caused by a system error which allowed two members of DHS staff to process the same batch of transactions at the same time. They further stated that the overpayments resulting from staff's misapplication of the state's child care provider payment rates were attributable to human error and that staff had assigned an incorrect rate to the children in TCCMS.

During the process of performing our testwork and analysis, we also identified a third type of error: instances in which the department paid the provider for an excessive number of days. For example, a child care provider's reporting period may have included 10 days, but the department may have paid the provider for 12 days (and no duplicate transactions were involved). Specifically, for 50 transactions,⁶⁴ totaling \$10,398, the department paid child care providers for more days than were included in the applicable reporting period. We selected a non-statistical, random sample of 5 of the 50 transactions, totaling \$1,080, and performed testwork to determine if the payments were made in accordance with the requirements of the program. Based on our review, we found that for 4 of 5 transactions tested (80%), DHS overpaid child care providers by a total of \$381. For three of the transactions, the department paid a total of \$372 for 22 days of child care services for which the department had already paid. For the remaining transaction of \$9, the department erroneously paid the provider for one additional day of services.

We asked DHS fiscal staff to explain why the overpayments occurred. DHS fiscal staff stated that the department had processed and paid the providers for services previously invoiced after receiving supplemental invoices submitted by child care providers. Fiscal staff explained invoices had already been paid and that the supplemental invoices were paid in error. For one provider, the department paid the provider for an additional day of services for which the provider was not entitled, because DHS's information systems erroneously indicated that the provider should have been paid for a Saturday.

⁶⁴ For this testwork, we define a transaction as one or more payments related to the same child, provider, and reporting period, not a single payment.

Age Requirements Analysis

Based on our analysis of all payments to child care providers for services provided July 1, 2015, through June 30, 2016, we found that DHS paid \$21,941 to child care providers for individuals who were age 13 and over when the services were provided.

We performed testwork to determine if the payments were made on behalf of individuals who met federal age-related exemption requirements and were therefore eligible to participate in the program. Based on the testwork performed, we found that DHS paid child care providers \$1,481 for eight individuals who were ineligible to participate in the program. These individuals were deemed ineligible because they exceeded the age limit and did not qualify based on other allowable criteria, such as being incapable of self-care or because they were under court supervision.

DHS staff stated that the eight individuals' cases should have been closed after the individuals turned 13 years old and that the payments should not have occurred. Management further stated that the cases were not closed timely due to oversight.

Criteria

Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 20, states,

(a) In order to be eligible for services under §98.50, a child shall: (1)(i) Be under 13 years of age; or, (ii) At the option of the Lead Agency, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision; . . .

According to Title 45, CFR, Part 98, Section 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."

According to Title 45, CFR, Part 98, Section 11(b)(4), in retaining overall responsibility for the administration of the program, the Lead Agency shall ensure that the program complies with the approved CCDF Plan. The approved plan identifies the provider payment rates that the state has established; therefore, 45 CFR 98.11(b)(4) requires the department to adhere to its established provider payment rates.

Regarding the inconsistent monthly reviews of eligibility determinations and redeterminations for CCDF cases, we included this matter in this finding because Title 2, CFR, Part 200, Section 516(a)(1), requires us to report significant deficiencies and material weaknesses in internal control over major programs as audit findings.

The Field Supervisor One (FS1) Job Plan States,

The FS1 over the CCCP [Child Care Certificate Program] will ensure quality customer service and accurate parent co-pay fees by monitoring the quantity and quality of cases completed by CCS [Child Care Specialists] within their county

and area of responsibility and addressing customer concerns with the expected outcomes as follows: The FS1 will complete 5 case readings per month for workers in unit.

Effect

Failure to close cases timely increases the risk that DHS will pay child care service providers for services rendered to ineligible program participants. In addition, improper application of the state's child care provider payment rate and failure to prevent duplicate payments increase the risk of unallowable expenditures.

Questioned Costs

We questioned costs of \$172,627 due to overpayments to providers, as detailed in the table below.

Condition	Federal Questioned Costs
Duplicate payments and excessive rates*	\$170,765
Excessive days	381
Payments on behalf of ineligible children over 12	1,481
Total	\$172,627

*As noted in the "Types of overpayments" section above, department fiscal staff reversed \$16,063 of the duplicate payments and excessive rates transactions identified in this table after we brought this matter to their attention.

Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

Title 2, CFR, Part 200, Section 84, defines questioned cost as a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a federal award, including for funds used to match federal funds; where the costs, at the time of the audit, are not supported by adequate documentation; or where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Commissioner of the Department of Human Services, the Child Care Services Director, and the Department Accounting Director⁶⁵ should ensure that caseworkers review and close cases timely to ensure that the department complies with federal CCDF eligibility requirements. In addition, the Commissioner should ensure that the department's internal controls are designed to prevent or detect and correct provider overpayments, and that these controls are operating

⁶⁵ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

effectively. This process should include ensuring that each district performs and documents its monthly eligibility case reviews. The department should also consider updating its computer information systems so that the system will automatically assign the correct payment rates to children and will prevent staff from paying the same provider twice for the same services. If this is not feasible, the department should consider performing periodic data analyses to identify instances in which department staff assign the incorrect payment rate to a child or pay a provider twice for the same services.

Management's Comment

The Department concurs in part.

The Department concurs that case review of eligibility determinations and redetermination were not performed consistently which led to errors in payment to child care providers calculated correctly.

The Department does not concur with the questioned costs. The Department implemented a process relating the duplicate payments in February 2017. The Department will review the Tennessee Child Care Management System (TCCMS) "Double Payments" report to detect and subsequently adjust duplicate payments to providers on a monthly basis. As of February 2017, the Department reviewed the Double Payments report for fiscal year 2016 and providers deemed to have received a duplicate payment in 2016 received an adjusted claim to recoup any over payments. The amount of duplicate payments confirmed by the Department was \$76,691.50.

The Department will implement procedures to manually review the maximum number of days available for each billing cycle to ensure providers are not paid excess days. This will mitigate the risk of error when calendars are loaded incorrectly into TCCMS. The Department also will review prior payments to determine the scope of the error and adjust claims where applicable. The Department expects to complete this effort in 2017.

The child care program management will work with IT staff on a process to have TCCMS generated reports for children turning 13 years old and have the report sent to a central location to be distributed to field staff timely for eligibility termination or continuance based on allowable criteria.

Finding Number	2016-050
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
Federal Award	G1501TNCCDF and G1601TNCCDF
Identification Number	
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-046
Pass-Through Entity	N/A
Questioned Costs	\$99,201

As noted in the prior audit, the department did not ensure child care providers maintained adequate documentation of child care services, did not properly calculate child care provider payments, and did not review a contractor's expenditures, resulting in \$99,201 of questioned costs

Background and Current Process

The Department of Human Services (DHS) is permitted to use the federal Child Care and Development Fund (CCDF) to fund the department's Child Care Certificate Program, which provides child care payment assistance to families as a support system that allows families to work and/or attend school, and to promote the physical, emotional, educational, and social development of children. The department's Family Assistance and Child Care Services' staff are responsible for determining the child's eligibility for child care services. Parents receiving assistance through the Child Care Certificate Program may enroll their children in any child care provider of their choice. In order for parents to receive payments through the Child Care Certificate Program for child care services, child care providers must sign the Childcare Provider Agreement and comply with the program's requirements.

Child Care Provider Payment Process

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. Child care providers are paid the weekly rates determined by the department, which depend on various factors such as

- the age of the child,
- the type of child care facility,
- the geographic location of the provider within the state,
- whether the child care is full-time or part-time,

- school enrollment, and
- the provider's participation in the star quality rating program.

DHS pays the providers a higher reimbursement rate for younger children, who require longer hours of child care, and for school age children when school is not in session (including holidays). DHS pays the providers based on the number of days child care services were provided.

The local DHS office staff are responsible for updating all school district calendars (noting which days schools are in session, out of session, or out for holidays) and the providers' rates (which are established for each eligible child) into the child care information system. Based on this data, the system generates provider payments for child care services provided.

Before approving a provider's reimbursement, DHS fiscal staff review the provider's EAVs for reasonableness and irregularities. DHS requires the providers to maintain sign-in/sign-out sheets (attendance documentation) to support the EAVs on site for three years.

DHS Monitoring Activities for the Provider

DHS's External Program Review⁶⁶ 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 provider's EAVs to the attendance documentation (sign-in/sign-out sheets). The staff question costs when they identify differences between the attendance documentation and the EAV and/or when the child care provider has not maintained the required documentation.

Other CCDF Program Responsibilities

DHS is also responsible for the planning and administration of child care quality and improvement activities for the CCDF program. DHS contracts with four agencies to provide training and technical assistance to parents, caregivers, and child care providers, and the department's CCDF program staff are responsible for monitoring the contractors to ensure they comply with the terms and conditions.

Prior Audit Finding Follow-up

We reported in the prior audit that management had not ensured that providers maintained adequate documentation of child care services and the documentation provided was suspect and lacked credibility. Management did not concur with the prior audit finding and stated that the contract between the state and the provider required each provider to maintain sign-in/sign-out documentation. Other than the External Program Review monitoring visits, which occur after provider reimbursements, management did not provide evidence that it offered training or

⁶⁶ Effective October 1, 2016, External Program Review changed its name to Audit Services.

provided communication about the importance of maintaining supporting attendance records as required.

Conditions and Criteria

We tested a nonstatistical random sample of 66 child care expenditures from July 1, 2015, to June 30, 2016, totaling \$7,539,872, from a population of 344,655 transactions totaling \$94,414,493. We requested the attendance documentation from the child care providers and supporting documentation from contractors to support child care related costs. Based on our testwork, for 18⁶⁷ of 66 expenditures tested (27%) we noted that the department did not ensure child care providers maintained adequate documentation of child care services, did not properly calculate child care provider payments, and did not review a contractor's expenditures for compliance.

Provider Conditions

Child Care Providers did not maintain any attendance documentation

Based on testwork performed, for 8 of the 18 errors noted, CCDF staff did not ensure the providers maintained documentation to support the providers' requests for reimbursement for services as required by federal regulations. The providers either did not provide any documentation when requested, stated they never maintained documentation to support the child care costs they received, or stated they maintained documentation for a period of time but eventually destroyed the documentation. We questioned \$79,960 for providers and DHS's lack of documentation.

According to Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 90,

(d)(1) Lead Agencies and subgrantees shall retain all CCDF records, as specified in paragraph (c) of this section, and any other records of Lead Agencies and subgrantees that are needed to substantiate compliance with CCDF requirements, for the period of time specified in paragraph (e) of this section.

(e) *Length of retention period.* (1) Except as provided in paragraph (e)(2) of this section, records specified in (c) of this section shall be retained for three years from the day the Lead Agency or subgrantee the Financial Reports required by the Secretary, pursuant to §98.65(g), for the program period.

In addition, Section A.5 (e) of the Provider Agreement states,

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. . . .

⁶⁷ One provider had more than one condition in this finding.

Child care providers maintained inadequate documentation

Based on testwork performed, we found that for 7 of the 18 errors noted, although the providers maintained some documentation, the documentation was not adequate to support the providers' reimbursement requests. Specifically, we noted the following problems with the attendance documentation.

- Providers reported children as present on the EAV, but the parent or other responsible individual had not signed the children in and out on the attendance documentation.
- A provider reported a child as present on the EAV; however, the provider did not provide the attendance documentation to support the child's attendance.
- Providers did not ensure the parent or guardian properly signed the children in and out on the attendance documentation. Specifically, we found that the documents suggested that one person completed both sign-in and sign-out lines for all children's attendance rather than submitting proper evidence that each child's authorized person (guardian) signed when dropping off or picking up the child at the child care providers.
- We also found that providers did not require parent or guardian signatures on the attendance documentation, or parents' initials were on the forms instead of the required signatures.

We questioned a total of \$5,568 for the days on which the child care providers did not provide adequate documentation to support child care services.

According to Title 45, *CFR*, Part 98, Section 67(a),

Lead agencies [DHS] 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). . . .

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.

DHS staff paid child care providers inappropriate child care reimbursement rates

Based on testwork performed, DHS did not properly determine child care reimbursement rates for 3 of the 18 errors noted. We noted DHS paid one child care provider the higher school out rate for child care services when school was actually in session because CCDF staff incorrectly entered days on the school calendar as a holiday. We also noted that DHS paid all three child care providers inappropriate rates for weeks that included holidays. Essentially, DHS staff paid the providers the higher reimbursement rate when the providers were not open and did not provide child care services. See Table 1. Since the providers were not open on the holidays, we question the reasonableness of paying providers at the higher rate. We questioned \$67 (the difference between the reimbursement rates for those dates) for DHS reimbursing the providers at the higher rate.

Table 1
Inappropriate Rates by Provider

Provider	Number of Children	Rate DHS Paid (school out)	Rate DHS Should Have Paid (school in)	Difference Between Rates	Number of Days per Child⁶⁸	Questioned Cost (rounded)
Provider 1	3	\$10.60	\$7.00	\$3.60	4	\$43
Provider 2	1	\$15.60	\$10.80	\$4.80	1	\$5
Provider 3	8	\$18.00	\$15.60	\$2.40	1	\$19
Total						\$67

According to Attachment A (Attendance Instructions) of the Provider Agreement,

9. Payment will only be made at the school out rate for a school age child on breaks if such child attends full time hours.

10. Holiday pay shall be at school out rate for school age children.

⁶⁸ Provider 1 was open and school was in session on Veterans Day. Provider 1 was also closed three days for the Thanksgiving Day holiday, and school was not in session. Provider 2 and Provider 3 were closed on Labor Day, and school was not in session.

Contractor Condition

Contractor charged unreasonable costs to the CCDF grant and did not provide sufficient documentation to support the costs of services provided under the contract

Based on testwork performed, 1 of the 18 errors noted for the expenditure testwork was for a contractor. The contractor did not provide documentation to support costs charged to the CCDF program, or if provided, the documentation did not support costs that were reasonable under CCDF regulations. Specifically, the costs did not relate to improving the quality of child care in the state of Tennessee. These unreasonable charges included

- costs paid for the contractor's Chief Financial Officer's family land line phone bill and cell phone bills,
- costs paid for the contractor's Director of the Child Care Resource and Referral Network personal motor club fee and personal storage rental, and
- purchases from a business owned by the Director of the Child Care Resource and Referral Network's husband.

According to Section C.5(b)(1) of the contract between DHS and the contractor,

An invoice under this Grant Contract shall include only reimbursement requests for actual, reasonable, and necessary expenditures required in the delivery of service described by this Grant Contract and shall be subject to the Grant Budget and any other provision of this Grant Contract relating to allowable reimbursements.

We questioned \$13,606 for the lack of documentation and the unreasonable costs charged to the CCDF program.

Cause

The Child Care Certificate Program Manager 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.

DHS CCDF program staff did not perform program reviews of contractor expenditures during site and monitoring visits. DHS Fiscal Services only performed a comparison of invoiced expenditures submitted for reimbursement to budgetary information.

Effect

When the department does not ensure child care providers and contractors maintain adequate and complete documentation, the department cannot ensure that payments to child care providers and

contractors are for actual services and are reasonable. Without effective controls to ensure compliance, the department increases its risk of noncompliance, errors, fraud, waste, and abuse.

Questioned Costs

We questioned costs totaling \$99,201 charged to the CCDF program. Title 2, CFR, Part 200, Section 516(a)(3), requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

Condition	Questioned Cost
Child Care providers did not maintain any documentation to support child care costs	\$79,960
Child care providers did not maintain adequate documentation to support child care costs	\$5,568
DHS paid child care providers inappropriate child care reimbursement rates	\$67
Contractor charged unreasonable costs to the CCDF grant and did not provide sufficient documentation to support the costs of services provided under the contract	\$13,606
Total	\$99,201

Recommendation

The Director of Child Care Services and the Director of Family Assistance and Child Support should ensure child care providers maintain sign-in/sign-out sheets in accordance with the *Child Care Agreements* to support the services provided. The Directors should also improve training and communication of the Child Care Certificate Program requirements with providers. In addition, they should ensure the school district calendars are properly entered and maintained, and that reimbursement rates are appropriate for the level of child care offered and reasonable, in consideration of holidays and when schools are not in session. The Child Care Services Director of Planning and Development should also ensure contractor expenditures are reviewed during site and monitoring visits.

Management's Comment

The Department concurs in part.

Child Care Providers did not maintain any attendance documentation

The Department concurs that some child care providers did not maintain adequate documentation of child care services and did not properly calculate child care provider payments. However, the Department does not concur with the questioned cost amount.

The Licensing Unit observes the total number of children present and compares the number of children to that day's sign-in/sign-out sheet. In cases, where there is no sign-in/sign-out sheet or if the number of children does not agree a licensure rule violation is documented.

The child care provider and Program Evaluator (PE) then develop a plan of action to correct the violation and maintain compliance. Subsequent, monitoring visits are conducted, as necessary. For providers, who are systematically non-compliant, the Department can employ civil penalties, which could result in termination of the license due to non-payment.

To address the cited issue, Program Management will direct PEs for a select number of their unannounced visits, review the EAVs, and compare it the sign-in/out sheets at the provider. Instances where there is a potential overpayment, the Licensing Unit will refer the matter to the Child Care Certificate staff and will collaborate with the Department's External Program Review to determine the need for further monitoring.

Program management will conduct training to reinforce the documentation requirements within the provider agreements as part of the SFY 2018 contract period.

DHS Staff paid child care providers inappropriate child care reimbursements rates

The Department concurs that a higher school out rate was due to staff error for the 3 cases noted totaling \$67. The Department will reiterate to Child Care Certificate staff procedures over inputting school district calendars correctly.

Contractor charged unreasonable costs to the CCDF grant and did not provide sufficient documentation to support the costs of services provided under contract

The Department concurs that the contractor did not provide sufficient documentation to support the cost of services. The Department contacted the contractor and requested support documentation. The Department agrees that \$102 of the \$13,606 noted in the finding was unallowable. The Department will conduct additional research and will recoup unallowable costs as determined necessary by the Department.

Auditor's Comment

According to 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, the department did not maintain documentation, did not follow federal requirements to calculate provider payments, and did not review expenditures before payment which resulted in unreasonable charges to the federal grantor. Management agrees with the facts in the finding and states corrective action will be taken. We will audit the department's corrective action during the next audit.

Finding Number	2016-051
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
Federal Award	G1401TNCCDF, G1501TNCCDF, and G1601TNCCDF
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Matching, Level of Effort, Earmarking
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not establish adequate internal controls to ensure compliance with federal earmarking requirements

Background

The Child Care and Development Fund (CCDF) provides funds to states, territories, and Indian tribes to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families where the parents are working or attending training or educational programs, as well as activities to promote overall child care quality for all children, regardless of subsidy receipt.

The CCDF is composed of three funding streams: Discretionary Fund, Mandatory Fund, and Matching Fund. Additionally, under the Temporary Assistance for Needy Families (TANF) program, a state may transfer TANF funds to CCDF. If a state transfers TANF funds to CCDF, the transferred funds are treated as Discretionary Funds.

The U.S. Department of Health and Human Services requires the Tennessee Department of Human Services (DHS) to meet various earmarking requirements for CCDF. The earmarking requirements specify the minimum and maximum amounts and the percentages of the program's funding that must or may be used for specified activities. There are three earmarking requirements for CCDF: the Administrative Earmark, the Quality Earmark, and Targeted Funds.

Under the administrative earmark requirements, a state may not spend on administrative costs more than 5% of all CCDF awards expended (i.e., the total of Discretionary, Mandatory, and Matching Funds) and any state expenditures for which Matching Funds are claimed.

Under the quality earmark requirements for the CCDF award for the federal fiscal year 2015 (October 1, 2014, through September 30, 2015), as provided in the state plan, a state must spend on quality and availability activities not less than 4% of CCDF funds expended and any state expenditures for which Matching Funds are claimed. For federal fiscal year 2016, the minimum quality spending requirement was increased to 7%.

Congress specified three types of targeted funds earmarking requirements applicable to the federal fiscal year 2015 CCDF grant funds: Infant and Toddler Targeted Funds, Quality Expansion Targeted Funds, and School-Age/Resource and Referral Targeted Funds. For the federal fiscal year 2016 CCDF grant award, the federal appropriations law for the grant award included only the Infant and Toddler Targeted Funds.

Condition

Based on discussions with the former Accountant and the Department Accounting Director,⁶⁹ the former Accountant did not establish internal controls to ensure compliance with federal earmarking requirements for the Child Care and Development Fund.

The department uses the quarterly ACF-696, *Child Care and Development Fund Financial Report*, to report expenditures on administrative activities, quality and availability activities, and targeted funds; however, fiscal staff did not calculate the percentages and amounts spent on earmarking activities as part of the reporting process or other processes. Based on discussion with the former Accountant, he was not aware of any internal department review to ensure earmarking requirements were met. Instead, the department had relied on a CCDF Program Manager at the Administration for Children and Families within the U.S. Department of Health and Human Services to notify the Tennessee Department of Human Services when the earmarking requirements were not met. According to the Department Accounting Director, there were no controls in place to ensure compliance with the earmarking requirements; however, he stated that the department will develop controls to ensure the earmarking requirements are met without having to rely on the CCDF Program Manager.

Criteria

According to “Appendix I: Requirements,” of the *Standards for Internal Control in the Federal Government (Green Book)*, “Management should design control activities to achieve objectives and respond to risks. . . .” and “Management should implement control activities through policies.”

Cause

When we inquired as to why no control was established, the Department Accounting Director stated that staff responsible for reporting CCDF expenditures were probably not aware of the compliance requirements.

Effect

Failure to establish and maintain effective internal controls increases the risk that noncompliance will not be prevented or detected and corrected timely. Noncompliance with the earmarking requirements may result in the loss of federal funds. According to the terms and conditions of

⁶⁹ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services’ fiscal functions. Therefore, the Department Accounting Director referenced above is an employee within the Department of Finance and Administration.

the CCDF grant award, noncompliance with earmarking requirements will result in the U.S. Department of Health and Human Services recouping federal funds not spent in accordance with the earmarking requirements.

Recommendation

The Department Accounting Director should establish internal controls to monitor compliance with the earmarking requirements and ensure that the compliance requirements are met.

Management's Comment

The Department concurs.

The Department concurs that improvement in internal controls is needed to ensure that the earmarking requirements are met prior to entering the expenditures into the federal system. The Department implemented the following corrective actions to address this issue:

- a new report preparation template has been created and was used to report ACF-696 data beginning with the September 30, 2016 report,
- source data from the general ledger is inserted into the template and the correct fields in the ACF-696 report are populated, and
- additional process over the preparation of the report was also placed in operation for the September 30, 2016 report.

Also, expenditures reported that do not fall within the earmarking requirements generate an error message by federal system control over the ACF-696 report.

Finding Number	2016-052
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
Federal Award	G1401TNCCDF, G1501TNCCDF, and G1601TNCCDF
Identification Number	
Federal Award Year	2014 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Department of Human Services program staff did not comply with health and safety requirements for child care providers, and Department of Education program staff did not always follow up on health and safety violations

Background

The state's Child Care Certificate Program, which is funded by the Child Care and Development Fund (CCDF), assists Families First participants, parents transitioning off of Families First, teen parents, and other individuals to obtain child care. To participate in the program, children must be declared eligible by Department of Human Services (DHS) staff or by Department of Children's Services staff for children in foster care or protective services. DHS establishes various child care provider payment rate schedules based on a variety of factors including the county where services are provided, the age of the child in care, and the type of child care provider. Providers' payment rates are also affected by the providers' star-quality rating. The Star-Quality Child Care Program is a voluntary program that rewards child care agencies who exceed minimum licensing standards. DHS staff use the criteria in the payment rate schedules to assign a payment rate for each child in the program. When child care providers submit attendance forms, the department's fiscal services staff pay the child care providers based on each child's payment rate and the number of days the child was in the provider's care.

Under the Child Care and Development Fund and Title 45, *Code of Federal Regulations* (CFR) Part 98, Section 41, Lead Agencies have significant responsibility for ensuring the health and safety of children in child care through the state's child care licensing system and for establishing health and safety standards for children who receive CCDF funds. Title 45, CFR, Part 98, Section 2, defines a lead agency as the legal entity to which the grant funds are awarded, which is the state. For Tennessee, DHS is specifically listed on the grant award documents as the lead agency responsible for administering the program. The Tennessee Department of Education (DOE) shares some responsibility with DHS for monitoring child care providers. Federal regulations in effect during the audit period did not specify how many site visits child care providers must receive, so DHS and DOE each utilized their own internal policies.

Under program regulations, child care providers are classified as either regulated or unregulated. Regulated providers consist of group homes, centers, or family day cares while unregulated child care providers are individuals who provide child care for up to six children (two children must be unrelated) for more than three hours a day in the child care provider's home. DOE staff are responsible to monitor the regulated child care providers located at schools, and DHS has the responsibility to monitor all other regulated providers in the state, as well as all unregulated providers. DOE monitors the regulated providers through one announced and one unannounced site visit per school year. DHS policy at the beginning of the audit period, July 1, 2015, required monitors to perform four unannounced and one announced visits per provider licensing year,⁷⁰ which included health and safety checks. DHS management amended its policy, effective February 1, 2016, to lower the minimum number of unannounced visits per year to two visits. DHS's state plan for CCDF for federal fiscal years 2014 and 2015, and extended through May 31, 2016, requires unregulated child care providers to complete health or safety checklists and a home visit prior to final approval of the home to ensure the home meets health and safety requirements. DHS's state plan for CCDF for federal fiscal years 2016 through 2018 requires unregulated child care providers to complete health and safety checklists and to undergo an initial monitoring visit by DHS monitors. Providers are subject to additional visits if the department receives any complaints.

Condition

Sample Testwork

To obtain reasonable assurance that DHS and DOE were compliant with CCDF health and safety requirements, we selected a random, nonstatistical sample of 60 payments made to 54 CCDF child care providers, from a population of 465,807 payments to child care providers during fiscal year 2016. For each payment, we identified the provider and tested whether the department's CCDF staff performed the required announced and unannounced site visits during the licensing period for which the provider received the payment. In addition, for each provider in our payment sample, we reviewed DHS's or DOE's most recent onsite monitoring documentation, whichever was applicable, to ensure that staff's onsite monitoring activities included reviews of the providers' compliance with health and safety requirements. If any violations were noted, we reviewed additional documentation to ensure that DHS staff and DOE staff followed up on the violations in accordance with their respective policies and procedures. Based on the testwork performed, we found multiple areas where DHS and DOE lacked internal controls and did not follow federal regulations and/or internal policies. Because health and safety concerns are critical, we felt it prudent to report all health and safety errors noted in this finding. While the error rates we noted were marginal, the nature of just one health or safety violation could place children at risk. Specific details are as follows:

- DHS staff did not conduct quarterly unannounced visits for three separate child care providers although they were required to do so by internal policy. Based on the testwork performed, we noted that for 3 of 60 payments sampled, representing 3 of 54 providers (6%), department staff did not conduct a required unannounced quarterly review.

⁷⁰ A licensing year begins when a child care provider receives its license.

- While DOE staff did monitor child care providers in accordance with their procedures and did obtain a corrective action plan and some documentation when violations were noted, DOE staff did not sufficiently follow up on all violations noted or perform additional site visits to verify providers made the corrections as described in the corrective action plans. Based on the testwork performed, for 2 of 60 payments tested (3% of payments), representing 1 of 54 providers (2% of providers), we found the DOE staff did not perform sufficient follow-up or additional site visits when they noted violations regarding immunization records, fire drills, staff physicals, proof of education, background checks, vulnerable persons checks, or parent's signature for child's participation. Additionally, while DOE used a spreadsheet to track whether the required announced and unannounced site visits were performed, the spreadsheet did not include fields for tracking whether staff performed follow-up procedures after noting violations during site visits. Also, DHS staff did not confirm DOE monitored all sites it was responsible for, even though DHS is responsible for administering CCDF in Tennessee.
- DHS staff and the unregulated child care providers did not sign the health and safety checklist at all the site visits. For 2 of 60 payments tested, representing 2 of 54 providers (4%), staff and unregulated providers filled out the health and safety checklist, but they did not sign it to verify a home visit was conducted. It is critical that the checklists are signed because the signatures provide some evidence that both a member of DHS staff and the child care provider acknowledge that a health and safety inspection actually occurred.

Additional Testwork Results

In addition to our sample testwork, we found that DHS staff do not perform site visits for child care providers that are in other states but care for children who reside in Tennessee. Based on our review of documentation, DHS paid 16 out-of-state child care providers a total of \$185,705 from July 1, 2015, to June 30, 2016, but DHS staff did not perform site visits for any of these child care providers. According to DHS staff, the department does not perform site visits for out-of-state providers because other states conduct monitoring for providers in those states. We asked department staff how they coordinate with these other states to ensure the providers are monitored for health and safety requirements, but we were not provided a response to our request for information. We were unable to satisfy our audit objective that these out-of-state providers met required health and safety standards.

Criteria

According to Title 45, CFR, Part 98, Section 11,

- (a) The Lead Agency has broad authority to administer the program through other governmental or non-governmental agencies. In addition, the Lead Agency can use other public or private local agencies to implement the program; however:
- (1) The Lead Agency shall retain overall responsibility for the administration of the program, as defined in paragraph (b) of this section;

- (2) The Lead Agency shall serve as the single point of contact for issues involving the administration of the grantee's CCDF program; and
- (3) Administrative and implementation responsibilities undertaken by agencies other than the Lead Agency shall be governed by written agreements that specify the mutual roles and responsibilities of the Lead Agency and the other agencies in meeting the requirements of this part.

According to 45 CFR 98.41(a),

(a) Although the Act specifically states it does not require the establishment of any new or additional requirements if existing requirements comply with the requirements of the statute, each Lead Agency shall certify that there are in effect, within the State (or other area served by the Lead Agency), under State, local or tribal law, requirements designed to protect the health and safety of children that are applicable to child care providers of services for which assistance is provided under this part. Such requirements shall include:

(1) The prevention and control of infectious diseases (including immunizations). With respect to immunizations, the following provisions apply:

(i) As part of their health and safety provisions in this area, States and Territories shall assure that children receiving services under the CCDF are age-appropriately immunized. Those health and safety provisions shall incorporate (by reference or otherwise) the latest recommendation for childhood immunizations of the respective State or territorial public health agency.

According to Title 45, CFR, Part 98, section 41(3d),

Each Lead Agency shall certify that procedures are in effect to ensure that child care providers of services for which assistance is provided under this part, within the area served by the Lead Agency, comply with all applicable State, local, or tribal health and safety requirements described in paragraph (a) of this section.

As shown above, the federal guidance effective during the audit period does not specify health and safety requirements other than immunization requirements. With the reauthorization of CCDF, effective November 29, 2016, federal guidance now specifies additional health and safety requirements. The update includes a rewrite of 45 CFR 98.41(a-e).

According to the *Child Care and Development Fund (CCDF) Plan for Federal Fiscal Year 2014-2015*, which is prepared by DHS and approved by the U.S. Department of Health and Human Services,

A health and safety checklist is completed during the application process and verified during all home visits . . . Does the Lead Agency permit providers to self-certify compliance with applicable health and safety standards? [The department selected No]

According to the *Department of Human Services' Child and Adult Care Licensing Policy and Procedures Manual*, which was in effect from the beginning of the audit period, July 1, 2015, through January 31, 2016,

Every agency, regardless of star rating, must receive at least 1 unannounced visit every three (3) - month quarter of the licensing year that the agency is open.

According to DHS's Administrative Policies and Procedures 13.02, effective February 1, 2016,

Child Care Centers, Group Care Homes, Family Child Care Homes, and Drop-in Child Care Centers are required to receive announced and unannounced agency visits. The following are the minimum visitation frequencies . . . Child care agencies issued annual licenses must receive two (2) unannounced agency monitoring visits.

According to *Rules of the State Board of Education Office of the Commissioner*, Chapter 0520-12-01, "Standards for Child Care Centers and School-Age Child Care Programs,"

(d) The program shall not admit a child into care until the parent has supplied the program with a completed application, immunizations record (for children over two (2) months of age), and a health history . . . The program shall maintain a written record in the child's file, as set forth in subparagraphs (b) and (c), verifying that the child has been immunized according to current Department of Health guidelines.

Based on discussion with the Director of School-based Support Services, Division of Early Learning and Literacy, Department of Education, there will be additional visits to follow up on violations if any are noted. The provider has five to ten days to submit an action plan to resolve the violation, and staff will go out and monitor within five to ten days of this submission unless there is reason to wait for a future date. The initial announced and unannounced site visits are recorded in the provider log, but if a follow-up visit is conducted for one of these visits, it is not recorded in the log.

Cause

We requested explanations for each of these problems from DHS and DOE managements. We received the following explanations.

DHS management stated that staff had not ensured they obtained all necessary signatures for health and safety checklists but that this was a one-time error. DHS also stated it did not monitor out-of-state providers because those states were responsible for monitoring the providers.

DOE staff obtained corrective action plans after noting health and safety violations, but stated they did not perform further follow-up on the noted violations because follow-up was not required. The department's procedures clearly include this follow-up requirement.

Effect

By not completing health and safety checks in compliance with federal requirements and internal policy, department staff have approved providers without ensuring critical health and safety requirements are in place, potentially subjecting children in the providers' care to unacceptable health and safety risks.

Recommendation

Department of Human Services management should ensure that staff complete child care provider site visits, which include health and safety checks, in accordance with federal regulations and internal policy. DHS management should also ensure that staff and providers sign all health and safety forms as required, should either perform site visits to out-of-state providers who care for Tennessee children or coordinate with other states to ensure all providers are monitored in accordance with federal regulations, and should confirm the completion of monitoring performed by the Department of Education. Department of Education management should ensure follow-up procedures are performed as required when staff note health and safety violations, and management should add fields to its site visit log for tracking whether the required follow-up was performed.

Management's Comments

Department of Human Services

The Department concurs in part.

The health and safety inspections of child care agencies located in other states are under the jurisdiction and laws and regulations of those states. Therefore, the Department does not agree that monitoring of child care agencies outside the state of Tennessee falls under the Department's jurisdiction, since every state is required to meet the same Child Care and Development Block Grant (CCDBG) requirements.

The Department agrees that one of the four quarterly visits for each of the three child care providers were not conducted. The State Office will reemphasize the policy for unannounced visits to field staff. The Department is in the process of revising the Memorandum of Understanding (MOU) with the Department of Education to reflect CCDBG requirements.

Department of Education

We concur. The Department of Education recognizes the importance of health and safety in Tennessee schools and aims to ensure robust controls and oversight in these areas.

The issues noted in the audit primarily reflect documentation challenges. The specific sites listed in the finding have already been contacted and documentation secured to ensure the violations noted were resolved. To prevent issues in the future, the department will redevelop and improve the following pieces of evidence to ensure clear directions, expectations, and documentation of the onsite review of child care centers:

1. The department will draft an updated policy guide that clearly delineates the state's process for onsite reviews, required elements and documentation, follow-up protocols, and tracking evidence of these procedures in practice. The department will ensure compliance with all applicable state and federal regulations, and, where appropriate, work with DHS contacts to ensure alignment in the onsite monitoring policies.
2. The department will develop an updated onsite review form. The audit surfaced a challenge in the clarity of onsite review information in differentiating violations and areas for improvement, causing additional complications in determining proper and needed follow-up actions. To mitigate this issue and to create a clear delineation for violations, the department's revised onsite review form will have sections for violations separate from notes regarding areas for improvement. The policy guide detailed above will include specific guidelines for the follow-ups required for various violations and support steps for improvement areas as appropriate.
3. The department will also revise its internal tracking system of onsite reviews and follow-ups, including storing of documentation to validate follow-ups. This responsibility will be included in the monitors' reporting process, including deadlines for any follow-ups required by the updated policy guide.

Finding Number	2016-053
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Material Weakness
Compliance Requirement	Other
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development rushed implementation of the Geographic Solutions Unemployment System in the face of known problems

Background

In May 2014, the department contracted with Geographic Solutions, Inc. (GSI) to implement the Geographic Solutions Unemployment System (GUS) as a replacement for its mainframe-based legacy system. The vendor converted data from Employment Security Combined Online Technology (ESCOT) to GUS, and the department ceased using the legacy system for processing as of May 12, 2016.

Since GUS processes, tracks, and reports on unemployment insurance claims, it is integral to the effectiveness of the Unemployment Insurance (UI) program in Tennessee. The vendor, GSI, hosts and supports the application. The vendor also develops and provides all federal and state regulatory updates, modifications, and reports required by the department.

According to the department's contract with GSI, the overall cost of implementing the GUS application and contracting for ongoing support was just under \$40 million. The Commissioner reported that, as of September 2016, the department paid approximately \$11 million for the acquisition and implementation of GUS. The remainder represents costs for operations and maintenance over the 10-year contract period that began May 1, 2014.

Condition

Department management implemented GUS in the face of known deficiencies, including unresolved testing errors, insufficient verification of the data conversion process, and inadequate training of staff. In addition, the department chose to implement GUS on its own without the

benefit of the guidance and project oversight of the Department of Finance and Administration's (F&A's) Business Solutions Delivery group normally charged with overseeing the state's large and complex system implementations.

Pre-implementation Testing

The department defined 234 unique test cases for user acceptance testing, of which 59 cases (25%) failed upon initial testing. The department had only resolved 4 of the 59 failed test cases when management made the decision to implement the system on May 16, 2016. These failed test cases included critical business functions that could affect timely payments to citizens and impact benefit charges and wage adjustments for employers.

Management reported to us that they documented the resolution of any outstanding problems associated with test cases in the Online Project Communication (OPC) system used by the department for communicating with the vendor. Management also stated that each of the failed test cases were resolved after GUS was implemented; however, management could not provide evidence that they tracked the resolution of failed test cases in OPC or by another method.

Data Conversion

The department could not provide evidence that the UI benefit payment data in ESCOT accurately converted to GUS. The GUS contract stipulates in deliverable A.91 that both the vendor, GSI, and the department should verify the accuracy and completeness of the data conversion process. We identified a document submitted by GSI to the department that presented a reconciliation of records migrated from ESCOT into GUS. Although former UI management⁷¹ accepted this documentation and signed off on this deliverable, the department has not provided evidence that it also conducted an audit of the data conversion results as specified in the contract. Therefore, we were unable to determine management's rationale for acceptance of the completeness and accuracy of the converted data.

In addition, we were unable to reconcile UI benefit payment data converted from ESCOT to GUS for the period July 1, 2015, through May 12, 2016. During the course of our audit, the department provided us with five different lists of UI benefit payments from the GUS application. We determined that each of these UI payment listings were incomplete and did not reconcile with ESCOT. Management could not explain these variances in time to complete our audit procedures (see finding 2016-061).

Training

UI management and staff did not receive adequate training prior to the GUS implementation on May 16, 2016. According to UI management, the state requested that the vendor conduct train-the-trainer sessions for staff. The GUS Training Plan indicates that these sessions were

⁷¹ On July 22, 2016, department management terminated the GUS Project Manager and the former Administrator and Assistant Administrator of Employment Security, citing problems with GUS. Management promoted the former Claims Center Director to Administrator of Employment Security and a former Unemployment Program Specialist 4 to Assistant Administrator of Employment Security.

originally scheduled for March 1, 2016, to March 4, 2016. However, according to both UI management and training plan documentation, the state suspended training efforts on the second day when it became apparent to department management that the GUS test environment used for training was not configured to process some of the complex UI claim scenarios. Additionally, the GSI trainer did not know how to process other types of claims within GUS.

The training plan also states that the department subsequently revised the pre-deployment training requirements to include online “overview training” in lieu of “official, on-site training” to be conducted the week of, or the week following, May 16, 2016. Management did not, however, provide any information about this training.

Criteria

Pre-Implementation Testing

The Business Solutions Delivery group has published systems development guidance entitled *Packaged Software Integration Life Cycle Model* that advocates user acceptance testing as a critical phase of the system implementation process. This approach recommends specifying test baselines, tracking test results, and establishing exit criteria based upon “no major problem reports outstanding” and the completion of a user acceptance test report.

Data Conversion

The department’s contract with GSI establishes in deliverable A.91, “The Contractor [GSI] shall conduct an audit of data before and after conversion, to ensure proper counts are updated and to verify the accuracy of the data conversion process. The State shall also conduct an audit of data conversion results and approval of these results by the State is required.”

Training

Contract deliverable A.29 specifies that, “The Contractor is responsible for developing training materials for presentation and delivery to training participants. All training materials and curricula shall be approved by the State prior to distribution and training sessions.”

Business Solutions Delivery

In response to other state departments’ previous failed or troubled system implementations, the Customer Focused Government IT subgroup recommended in October of 2011 that a centralized Business Solutions Delivery team be established to lead some of the largest and highest risk agency information technology implementations across the executive branch of Tennessee state government. The Governor endorsed the implementation of this solution the following month. At the time, the Department of Labor and Workforce Development was initiating the acquisition of a multi-state Unemployment Insurance system, the precursor of GUS; this system was one of the system implementations suggested for Business Solutions Delivery group involvement. In 2014, the department changed direction and moved to the single-state Geographic Solutions Unemployment System.

Cause

UI management told us they made the decision to proceed with the implementation of GUS on the planned implementation date of May 16, 2016, due to the expiration of contracts supporting legacy systems and pressure to meet the implementation deadline. Management chose to go-live in the spring of 2016 and resolve problems as they arose instead of postponing the implementation until more of the known issues could be resolved.

Former management believed they would be able to fix issues as the system was used, but current management explained that they did not realize the full extent of the problems that contributed to creating a backlog of UI claims that then expanded with use. Furthermore, the Commissioner stated that the original project managers incorporated legacy business processes and improper configurations into the new GUS system against the original intent of the project's requirements.

The department permitted the Business Solutions Delivery group only limited involvement during the early planning phases of the GUS implementation process. The Business Solutions Delivery group or, to our knowledge, any other state personnel outside the department experienced in system implementation was not involved during the final months of implementation, including the decision to begin using GUS for processing UI benefit claims in May 2016. When we asked why the Business Solutions Delivery group was not more involved in the decision to implement GUS, the Commissioner of the department declined to discuss the matter with us.

Effect

As a result of the decision to implement GUS despite the problems with the system at the time, department management caused undue hardship to citizens who recently separated from employment. Based on our audit of the department's compliance with requirements for the UI program, we identified the following significant deficiencies, material weaknesses, and instances of noncompliance caused at least partially by the new system:

- Special Tests and Provisions – The department ceased receiving payments through the Treasury Offset Program (finding 2016-055).
- Reporting – For the quarter ended June 30, 2016, the department⁷² was unable to submit a federally required report on claims overpayments that would pass the U.S. Department of Labor's standard edit checks (finding 2016-056).
- Eligibility – The department did not review claims, pay unemployment benefits, respond to claimants' requests for assistance, or conduct appeals hearings in a timely manner (finding 2016-054).
- Reporting – The department submitted a report on unemployment benefits for former federal employees and service members to the Employment and Training

⁷² 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.

Administration fiscal staff for the quarter ended June 30, 2016, that included uncorroborated and inaccurate amounts (finding 2016-058).

- Eligibility – The Employment Security Division did not perform “cross-matches” to identify individuals who collected UI benefits while earning wages in Tennessee or other states and its cross-matches for state employees and state inmates lacked sufficient information for staff to investigate the results. Additionally, due to the delays in obtaining reliable data and variances that could not be explained by management, we were unable to test whether the department corrected a deficiency noted in the prior-year audit relative to identifying ineligible payments made to state inmates and other individuals (finding 2016-061).

Recommendation

The Department of Labor and Workforce Development should immediately enlist the assistance of the Business Solutions Delivery group or other state personnel experienced in systems implementation in resolving problems and ensuring that all business processes in GUS are functioning as intended. The department should also make certain that GUS is accurately processing unemployment insurance claims so that management can report complete and accurate information to both state and federal stakeholders.

In addition to the issues specific to the GUS application, top state officials should recognize all of the costs associated with ineffective system implementation projects, not only the dollars wasted, but also the inefficiencies created and the negative impact on the people the state serves. This recognition is particularly important in regard to vulnerable citizens, such as those needing unemployment benefits and their dependents.

In the future, state officials should safeguard against additional ineffective system implementation projects by making Business Solutions Delivery team oversight a prerequisite for funding of all large system development and acquisition projects.

Management’s Comment

We concur in part.

Background

In 2008, the United States Department of Labor (USDOL) informed all states that they should create or acquire a “modernized UI system”. USDOL considered this a most critical initiative, in light of the fact that unemployment insurance systems across the nation were dependent upon decade’s old, outdated software and hardware. A situation fraught with the possibility of catastrophic failure.

The vehicle USDOL perceived as the solution to this problem was the creation of numerous multi state consortiums across the country. Tennessee was a member of the four state consortium known as the Southeast Consortium for Unemployment Benefits (SCUBI), which consisted of

Tennessee, Georgia, N. Carolina and S. Carolina and the recommended system to which the finding refers.

In 2013, five years later, the Department found the Consortium had yet to choose a vendor and consequently no contract or system was in place. The Department launched an in depth, exhaustive due diligence and analysis of SCUBI.

The study evaluated every aspect of the Consortium to include governance structure, the Cooperative Purchasing Agreement (CPA) between the member states outlining the duties and responsibilities of each and the failure of the finalist vendor respondent to meet RFP requirements. The study identified numerous deficiencies in every aspect of the SCUBI endeavor. Tennessee's Chief Procurement Office was consulted on the failure of the finalist vendor to meet RFP requirements and the recommendation was that Tennessee consider removing itself from the SCUBI consortium.

In July 2013, the extensive study was presented to the Commissioner of Finance and Administration and the Chief Operating Officer of the State of Tennessee with the recommendation that Tennessee extricate itself from the Consortium and pursue an alternate course. This recommendation was accepted and Tennessee exited SCUBI. Then began the journey of repairing the 43-year-old COBOL system, a necessity while concurrently acquiring a modernized system.

As of this writing, none of the multi-state consortiums created to modernize unemployment insurance systems has been successful, including SCUBI.

Contrary to the assertion that Business Solutions Delivery wasn't permitted to participate in the implementation process, the group was invited to participate in a consultative capacity and participate in weekly meetings for the duration of the process. It is our understanding that other, more demanding programs demanded their attention and prevented this from occurring.

Cause

The decision to implement the system on May 16, 2016 was not based on any pressure to meet any implementation deadline. The project managers were well aware that the date of implementation was not important. On the contrary, the instruction was that it should not happen until the system was ready, not before.

As pointed out in this finding, the original project managers incorporated legacy business processes and improper configurations into the new GUS system against the original intent of the project's requirements. They also failed to incorporate several functionalities intended to be in the new system. These things caused unnecessary but repairable operational issues.

Additionally, these project managers failed to accept criticisms from and incorporate suggestions made by long time unemployment insurance personnel who were intricately familiar with the business rules and necessary processes and procedures of an unemployment insurance system.

These were the very people experienced in systems implementation, resolving problems and ensuring business processes in GUS function properly.

The above failures and omissions contributed greatly to the problems identified with pre-implementation testing, data conversion and training identified in the finding and prevented the existing functionalities of GUS from operating to their maximum capabilities.

As of this writing, many of the issues identified in the finding are corrected and the system is performing well. As of this writing the system:

- Has paid \$158,107,550 to 74,359 claimants.
- The total pending claims as of March 2, 2017 are 2,705 with 557 of these over 21 days.
- The average age of all claims is 15 days.
- First pay rate for March month to date is 76%. We will soon be past the 87% first pay rate required by USDOL.
- Testing procedures now include multiple levels of testing by both the vendor and department staff. All changes to the system are tested by the vendor in a quality assurance environment and then promoted to a staging environment for department staff to test. Changes must be approved in the staging environment before a change is promoted to the production environment.

Requirements definition and testing of changes are now performed by UI staff with the privilege settings to perform those same functions within the production system. All changes are requested and tracked through the vendor's online project communication system.

- Training has been provided to all claims agents, adjudicators, and Benefit Auditors and will continue as new enhancements are added to the system.
- Data conversion issues that contributed to our problems at go-live have been identified, cleaned up and corrected.
- A call center has been created to assist claimants with questions about their claims.
- The "automated" claim status checker that was omitted from the new system has now been reestablished.
- The "partial system", which addresses seasonal employees and which was also omitted from the program, is now reinstated.

There are no wasted dollars in the implementation or post implementation of the new system. The project came in on time and under budget. The contract with Geographic Solutions also included a 12-month post implementation clause that provided for any post implementation adjustments and corrections. The cost of implementing the system has not exceeded the initial contract cost.

Tennessee's new unemployment insurance system is neither a failed system nor an ineffective one. Nevertheless, we continue to work diligently to increase its efficiency.

Finding Number	2016-054
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Following the implementation of a new information system, the Department of Labor and Workforce Development failed to review Unemployment Insurance claims prior to issuing benefits and did not review claims, pay benefits, respond to claimants' requests for assistance, or conduct appeals hearings in a timely manner

Background

The Unemployment Insurance program is a federal-state partnership designed to ensure the economic security of workers who lose their jobs through no fault of their own. The U.S. Department of Labor provides grant funding for each state to design and administer its own Unemployment Insurance program within federal requirements. In Tennessee, the Division of Employment Security within the Department of Labor and Workforce Development (the department) operates the state's Unemployment Insurance program to issue direct payments to individuals during times of involuntary unemployment.

Approval Process for Unemployment Claims

According to state regulations, individuals filing Unemployment Insurance 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. The claimant must also meet other eligibility (non-monetary) requirements to qualify for benefits. In general, a claimant must have separated from their most recent employer through no fault of their own. Claimants' circumstances generally fall into one of three non-monetary categories:

1. lack of work: the employer laid off the employee,
2. quit: the employee voluntarily quit with just cause, or

3. discharge: the employer terminated the employee because of performance issues other than misconduct.

Claimants file initial unemployment claims either online or by phone. While the department's claims processing system determines whether the claimant is monetarily eligible based on employer-filed wage reports, department claims agents often need to evaluate separation issues and personal eligibility issues (those issues that involve claimants' ability and availability for work) before making a decision to approve benefits. Department personnel take the following steps to assess claimant eligibility:

1. The department sends a Request for Separation Information letter to the claimant's separating employer notifying them that the claimant has filed a claim and the reason the claimant gave for his or her separation. The employer has seven days to respond to the letter to dispute the claim.
2. If the employer provides a disputing response, a department adjudicator gathers applicable facts from the claimant and the employer and determines whether the claimant qualifies for benefits.
3. If the employer does not respond to department requests for separation information, an adjudicator evaluates the claim based on available information. The department's claim system automatically approves "lack of work" claims 10 days after filing unless the claim is manually or electronically recoded due to receipt of an employer's disputing response or the presence of other non-monetary issues requiring adjudicator review.

Upon approving or denying a claim, the adjudicator sends a decision letter to the claimant and the employer explaining the reason for the determination and the parties' right to appeal the determination within 15 days of the letter's mailing date. Claimants may appeal denied claims and employers may appeal approved claims, which can cause their unemployment tax liability to increase. Mailed-in appeals require system upload. The Appeals Tribunal within the department schedules and hears appeals.

Once the department approves a claimant's benefits, the claimant is required to certify weekly that he or she is ready, willing, and able to work each day; is seeking full-time employment; did not refuse any job offers or referrals; has reported any wages earned during the week to the department; and has contacted at least three employers or accessed services at a career center. To fulfill this requirement, claimants complete a questionnaire on the Weekly Certification page of the department's JOBS4TN website.

Unemployment System Modernization

In 2010, the National Association of State Workforce Agencies (NASWA) reported that most state unemployment agencies still relied on "legacy" mainframe systems to process claims for benefits.⁷³ Of the 38 states NASWA surveyed, Tennessee's legacy mainframe system,

⁷³ *A National View of UI IT Systems*, National Association of State Workforce Agencies - Center for Employment Security Education and Research - Information Technology Support Center, July 2010.

implemented in 1978, was the sixth oldest. The four major areas of concern expressed by states running legacy mainframe systems were that the systems are costly to maintain, difficult to reprogram to adapt to changing state and federal unemployment laws, lack the capacity to handle recessionary claim volumes, and do not integrate well with productivity-enhancing tools.

Since 2009, the U.S. Department of Labor has offered a series of supplemental funding opportunities to encourage states to replace their legacy Unemployment Insurance infrastructure with modernized systems. The department used supplemental funding in 2014 to acquire Geographic Solutions Unemployment System (GUS), a web-based benefits processing application developed and maintained by the vendor Geographic Solutions, Inc. The department implemented GUS on May 16, 2016, and retired its benefits mainframe system and several associated applications, including appeals scheduling software. Compared to the mainframe it replaced, GUS facilitates electronic correspondence between department personnel and claimants and employers; stores digitized claims documentation; and provides an online interface for claimants to manage their benefits.

In April 2015, the department also used supplemental funding to deploy Zendesk, a cloud-based customer service platform. Prior to the implementation of Zendesk, the department's Claims Center operated as a traditional call center where claims agents answered calls live on a first-come, first-served basis. Under this model, the department did not maintain adequate staffing levels to handle the volume of calls placed to the Claims Center, as we disclosed in the *Single Audit Report* for 2012, 2013, and 2014. Further, claimants were unable to leave messages or requests for assistance, requiring them to call the Claims Center again if they were unable to reach a claims agent on their initial attempt. With Zendesk, management sought to improve claimant experience by offering more self-service options and web-based communication channels.

The Zendesk phone system offers a menu of prompts for claimants to follow based on their reason for calling and also allows claimants to leave voicemail requests for assistance, which creates a Zendesk ticket. Claimants can also create written Zendesk tickets by clicking help icons on the department's main website or on the department's JOBS4TN website. Claims center supervisors assign Zendesk tickets to department staff, who contact the claimants to provide assistance. Until approximately September 15, 2016, claimants were also able to communicate with claims agents through the department's live chat, accessible through the department's website. Claimants could leave Zendesk tickets through the chat system as well, if they so chose.

Condition

After the implementation of GUS, the department did not review claims prior to issuing benefits or review claims, pay unemployment benefits, respond to claimants' requests for assistance, or conduct appeals hearings in a timely manner. Specifically, we identified the following conditions:

a. GUS automatically approved lack-of-work claims prior to staff review

For the period May 16, 2016, through December 29, 2016, GUS automatically approved the non-monetary eligibility of 13,153 lack-of-work claims. On 3,634 of these claims, claimants

received benefits based on the automatic approval in GUS. In addition, GUS did not generate decision letters to notify claimants or employers that these lack-of-work claims were approved and that the parties have the right to appeal the determination.

Division management was unable to determine how many of these claims were automatically paid before staff review. The Assistant Administrator of Employment Security stated that staff eventually reviewed these claims, and if it was determined that a disputing employer response existed, staff would determine if the claimant was in fact ineligible. After staff reviewed these claims, GUS still did not generate a decision letter unless staff reclassified the claim and made a new eligibility determination. Management directed staff to forward ineligible claims to the department's Benefit Payment Control unit to initiate an overpayment investigation if warranted.

b. The department did not review claims or pay benefits timely

During the period of May 16, 2016, through our final update with management on November 22, 2016, department staff did not process, review, or determine eligibility on new claims until approximately 8 to 12 weeks after they were filed. As of November 3, 2016, the department had a backlog of 12,121 pending claims awaiting determination, of which 7,844 exceeded the federal timely payment promptness standard of 21 days.

c. The department did not respond to claimants' requests for assistance timely

When the department upgraded its traditional call center, Zendesk tickets became the primary way for claimants to request assistance from Claims Center staff. As of October 5, 2016, the department's Zendesk ticket backlog was 22,155 tickets, and claims agents were responding to tickets dating back to July 15, 2016, resulting in a delay of 82 days from the time claimants created the tickets. As of November 28, 2016, the department's Zendesk ticket backlog had decreased by just 655 to 21,500 tickets, the oldest of which still dated back to July 15, 2016.

d. Appeals were not scheduled timely

As of November 7, 2016, the department's Appeals Tribunal had a backlog of 1,192 unscheduled appeal requests dating back to July 27, 2016.

Given the conditions identified during our fieldwork, we reviewed the department's December 2015 Financial Integrity Act Risk Assessment as well. We determined that management recognized the risk of changes to the Unemployment Insurance mainframe system causing new problems; while the department is working toward correcting the problems that arose, full resolution will take time.

Criteria

According to Section 50-7-304(b)(1), *Tennessee Code Annotated*,

(A) A representative designated by the commissioner, and referred to as the "agency representative," shall promptly examine the claim and, on the basis of the facts found by the agency representative, shall either determine whether or not the claim is valid monetarily.

(B) Further, the agency representative shall then review the claim deemed valid monetarily and render a determination on the nonmonetary issues presented . . . The agency representative shall promptly give written notice to the claimant and all other interested parties of the nonmonetary determination and the reasons for the determination.

Section 303(a)(1) of the Social Security Act states that the department must have “such methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due.”

Title 20, *Code of Federal Regulations* (CFR), Section 640 establishes that the department should issue the first benefit payment based on the claim’s eligibility decision within 14 days of the first compensable week. Section 640 adds that a minimum of 87% of claims should meet the 14-day standard⁷⁴ for the 12-month period ending March 31 of each year.

According to 20 CFR 650.4(b), federal standards require the Appeals Tribunal to issue 60% of all decisions within 30 days of the date of appeal and 80% of all decisions within 45 days of the date of appeal.

Cause

a. GUS automatically approved lack-of-work claims prior to staff review

According to the Administrator of Employment Security, GUS is programmed to approve lack-of-work claims 10 days after the claim has been filed, unless a staff member creates a separation issue on the claim or GUS determines that there are other disqualifying issues that need to be resolved. Because the implementation of GUS led to a backlog in reviewing and determining claims, staff did not review the majority of lack-of-work claims filed in GUS within 10 days. The department’s previous processing system mainframe was also programmed to automatically approve lack-of-work claims, but staff manually reviewed most lack-of-work claims filed in the old system before they were auto-approved because no backlog existed prior to GUS.

The Administrator of Employment Security explained that most automatically approved claims did not immediately pay benefits because GUS automatically recoded those claims to a pending status when it detected other issues affecting claimant eligibility. GUS detected at least one additional eligibility issue with 72% of lack-of-work claims, so management continued the policy of allowing lack-of-work claims to automatically approve after 10 days.

The Assistant Administrator of Employment Security added that a programming error in GUS caused decision letters not to be sent to claimants and employers for automatically approved lack-of-work claims. On August 25, 2016, department management requested

⁷⁴ 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 plus 14 days following the first compensable week).

programming adjustments from the vendor. We determined that as of December 29, 2016, the vendor had not fixed the problem.

On approximately September 8, 2016, management created a “Lack of Work Team” composed of 17 claims agents who work exclusively on current and backlogged lack-of-work claims. Further, management grouped lack-of-work claims together by employer so that claims agents could confirm reasons for separation for multiple claims with one phone call to each employer.

We noted that as of September 27, 2016, the team was reviewing claims with filing dates ranging from mid-July through September 20, 2016. As of January 18, 2017, management told us there were approximately 1,100 pending lack-of-work claims that had all been assigned to staff for review.⁷⁵ Management stated that the oldest claim requiring review dated back to November 7, 2016, but this claim and other older claims were still pending due to other issues not related to lack of work, such as severance.

b. The department did not review claims or pay benefits timely

The Administrator of Employment Security⁷⁶ explained that initial design and implementation problems with GUS led to the following claims processing delays:

Noncritical Issues

The system’s vendor initially designed GUS to detect and create “issues” for factors potentially affecting a claimant’s eligibility for benefits, some of which were not critical to the claimant’s circumstances.⁷⁷ The system required adjudicators to review and resolve each issue separately before approving or denying a claim, and it was not unusual for a single claim to have as many as six noncritical issues. Consequently, adjudicator productivity dropped approximately 40% from pre-GUS levels.

On approximately August 15, 2016, the department implemented a new process so that adjudicators only had to resolve critical issues before determining a claim. In the new process, after an adjudicator makes a determination on the relevant separation issue, the adjudicator adds the claim to a list on a shared drive. From there, a claims agent resolves any noncritical issues remaining on the claim.

On approximately October 3, 2016, the vendor deployed a programming adjustment to GUS allowing staff to resolve noncritical issues in bulk instead of one at a time. We noted that

⁷⁵ We received this update from management after concluding our fieldwork, so we did not verify the number of pending lack-of-work claims assigned to staff for review.

⁷⁶ On July 22, 2016, department management terminated the GUS Project Manager and the former Administrator and Assistant Administrator of Employment Security, citing problems with GUS. Management promoted the former Claims Center Director to Administrator of Employment Security and a former Unemployment Program Specialist 4 to Assistant Administrator of Employment Security.

⁷⁷ Examples of noncritical issues include verification of separation issues from non-separating employers and earning requirements from previous claims. A non-separating employer is an employer the claimant worked for prior to their last job or an employer the claimant worked for as a second job at the time they filed for unemployment.

some noncritical issues, such as earnings requirements for non-separating employers, still must be reviewed and cleared individually.

Data Conversion

Prior to implementing GUS, the department converted claims data from the legacy system to the new system. Conversion errors stopped benefit payments on previously approved claims, requiring staff to re-approve and resolve noncritical issues for claims that had already been approved. We detail these conditions in the *Single Audit Report* for 2016 in a finding entitled, “The Department of Labor and Workforce Development rushed implementation of the Geographic Solutions Unemployment System in the face of known problems.”

Change to Partial Claims Procedures

Division of Employment Security management changed procedures for filing and processing partial claims (claims for workers who are temporarily laid-off), resulting in an increased workload for staff. In the prior system, employers filed partial claims on behalf of their temporarily laid-off employees, and partial claimants filed weekly hard-copy certifications of wages earned with their employers. Following the implementation of GUS, the department shifted the responsibility for filing partial claims from employers to claimants and required claimants to complete weekly online wages-earned certifications. Because so many partial claimants were unfamiliar with the claim filing and weekly certification processes, many left Zendesk tickets requesting assistance or information. Partial claims account for approximately 27% of the total claims filed per year.

c. The department did not respond to claimants’ requests for assistance timely

Delays in determining claims and stopping benefit payment due to conversion issues created an increase in Zendesk tickets from claimants seeking assistance or inquiring about the status of their claims. Because they did not receive prompt responses to their initial requests for assistance, some claimants filed multiple Zendesk tickets, which added to the backlog and increased ticket response times.

On approximately June 27, 2016, management created the “One Touch Team,” a group of claims agents assigned to group Zendesk tickets by issue so that claims agents can work on resolving similar issues and correspond with several claimants at once through group emails. Furthermore, management authorized (but did not require) overtime for department staff working on the claims and Zendesk backlogs.

On approximately September 15, 2016, management determined that the backlog could be more effectively reduced by eliminating the Zendesk chat feature and assigning all claims agents to resolving tickets related to claims that had already been filed.

On approximately October 3, 2016, management instructed staff that for each claim they were assigned to review or adjudicate, they should also resolve any Zendesk tickets associated with the claim.

d. Appeals were not scheduled timely

According to the Director of the Unemployment Insurance Appeals Tribunal, the contributing factors to the appeals scheduling backlog included the following:

- Management anticipated needing fewer Appeals Tribunal staff once GUS was implemented and beginning in 2015 did not fill a total of six vacated Appeals Tribunal positions. In addition, management prioritized Claims Center staffing over Appeals staffing.
- The process for uploading, docketing, and scheduling appeals in GUS was more time-consuming than it was in the previous appeals scheduling system.
- Due to the department's overall backlog of pending claims and delays in responding to claimants' requests for assistance, many claimants began calling the Appeals Tribunal to request assistance with their unemployment claims. Appeals personnel responsible for answering phones were also responsible for uploading mailed-in appeals into GUS, so the extra time spent answering phones reduced time for uploading documents.

Department management took the following steps to address appeals scheduling delays:

- On approximately August 15, 2016, management requested that Human Resources hire 15 new Appeals Tribunal employees, including phone staff, docketing staff, and hearings officers.
- Management worked with Geographic Solutions, Inc. staff to make program changes in GUS to improve workflow and efficiency in the appeals scheduling process.

Effect

By not promptly paying unemployment benefits or responding to claimants' requests for assistance, the department places undue hardship on claimants who recently separated from employment, as well as their families. It is the department's responsibility to ensure that only eligible individuals receive unemployment benefits. When the department's operating system automatically approves claims before they have been reviewed by staff, or when employers do not receive all claims-related correspondence, including decision letters, the department risks paying benefits to claimants who are ineligible or have filed fraudulent claims. By not ensuring that decision letters for automatically approved lack-of-work claims are sent to employers, the department denies employers their rights to appeal claims to ensure that their unemployment insurance tax liability does not increase. By not promptly scheduling appeals hearings, the department causes undue hardship on claimants who believe they have wrongly been denied unemployment benefits, as well as employers who believe they have wrongly had unemployment benefits charged against their account, which could result in an increase in their unemployment insurance tax liability.

Recommendation

The Commissioner and the Administrator of Employment Security should continue to monitor claims, Zendesk tickets, and appeals backlogs and take all necessary steps to ensure that the backlogs are eliminated and all claims are reviewed before benefits are paid. Such steps include,

but are not limited to, ensuring that necessary modifications are made to GUS and ensuring that staffing levels are adequate.

Management's Comment

We concur in part.

- a. Because it is not a requirement for states to issue a decision letter on lack of work claims, the system was designed so that system approved lack of work claims did not generate a decision letter. We have been working with the vendor on this issue. As of February 15, 2017, this issue has been corrected and all claims should have a decision letter issued going forward.

The system is designed to allow for auto adjudication of certain issues, such as lack of work. This is also encouraged by USDOL. When a lack of work claim is filed, a request for separation information letter to the employer is generated. If the employer fails to respond, the claim will automatically approve after 10 days. If the employer responds with conflicting information, an issue is created which will stop the auto approval process. At this point staff will review the claim and issue a decision, based on all of the facts of the claim. If the employer responds late (i.e., after an automatic approval), the system will create a work item for staff to review, and if necessary, and to issue a corrected decision.

- b. When the department made the switch from a 43-year-old main frame system, there were many issues that led to the backlog of claims and untimely processing. The converting of data from the legacy system to the modern system led to various unforeseen issues, such as data not converting correctly. This required staff to review converted claims for accuracy, which led to decreased processing times and contributed to the backlog. The system was also overzealous in creating issues and work items. This too led to decreased processing times and contributed to the backlog. In working with the vendor, we have cleaned up the data and have eliminated unnecessary issues and work items. In late November 2016 we moved to a team system of claims processing that has streamlined the process and reduced the total number of outstanding claims. As of February 23, 2017, the number of outstanding claims is 4,578, while the backlog number of claims is 1,547. Claims that are less than 21 days old are not part of the backlog, but are included in the regular workload counts.
- c. When the department made the transition to the new system, calls and tickets immediately increased. This was largely due to claimant confusion with the new system. To some degree, this was expected. But with decreased processing times due to data conversion issues and an overzealous system, the backlog of calls and tickets continued to grow. In October 2016 the department made the decision to focus the attention of claims agents and adjudicators on clearing the backlog of claims. When an agent or adjudicator would resolve the issues on a given claim, they would search Zendesk for corresponding tickets and respond to the claimant at that

time, if it were a status request. The department also used the customer success team to identify tickets from claimants who needed assistance filing or certifying. These tickets were then sent to a group of claims agents who would assist these claimants. The department has created a temporary call center to answer questions regarding status and other issues that lead to the majority of ticket submissions. We now have enhanced our online status checker for claims.

- d. The backlog in appeals is directly related to the implementation of the new system and to the backlog in claims. Management agrees that the appeals staff was depleted and is working to correct this depletion. We recently hired three additional hearing officers and are in the process of interviewing for several support staff positions. We are also working closely with Geographic Solutions, Inc., to improve efficiency in the docketing and scheduling of appeals.

Finding Number	2016-055
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-28004-16-55-A-47, UI-28159-16-60-A-47, EUC, Fed EB, UCFE, and UCX, TUC-State Expenditures, FAC Benefits & UI Admin
Federal Award Year	2010 through 2016
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development suspended its efforts to recover overpayments through the federal Treasury Offset Program when it replaced its legacy system for unemployment claims in May 2016

Background

The Treasury Offset Program, administered by the U.S. Department of the Treasury's Bureau of the Fiscal Service, collects delinquent debts owed to federal and state agencies. These debts include Unemployment Insurance (UI) benefit payments paid to individuals that were later determined to have been ineligible for the payment, along with any penalties and interest. Creditor agencies, such as the state's Department of Labor and Workforce Development, submit delinquent debts to the Bureau of the Fiscal Service and certify that the debts qualify for collection by the reduction or withholding of federal payments that would otherwise be made by the bureau to the debtor, such as federal income tax refunds.⁷⁸

Condition

Based on our audit work, we found that department management ceased using the Treasury Offset Program to recover UI overpayments when the department replaced its mainframe-based legacy system with the Geographic Solutions Unemployment System (GUS) in May 2016.

Criteria

According to Title 42, *U.S. Code*, Section 503, states must use the Treasury Offset Program to recover unemployment compensation debts over a year old from income tax refunds otherwise

⁷⁸ The Bureau of the Fiscal Service disburses payments for federal agencies (e.g., federal tax refunds from the Internal Revenue Service) and thus can recover a UI overpayment from the individual's tax refund prior to disbursement.

payable to the debtors. To provide guidance to state workforce agencies about the requirement to use the Treasury Offset Program, the U.S. Department of Labor's Employment and Training Administration issued Unemployment Insurance Program Letter No. 12-14. According to this advisory letter,

All states are required, as a condition of receipt of grants to administer the UC [Unemployment Compensation] program, to use the TOP [Treasury Offset Program] to recover all types of covered UC debts that remain uncollected as of the date that is one year after the debt was finally determined to be due and collected . . . [C]overed UC debts include overpayments due to fraud or failure to report earnings, uncollected contributions that are past-due, and any associated penalties and interest.

Cause

According to the Director of UI Recovery, the department ceased reporting delinquent debts and processing payments through the Treasury Offset Program on May 1, 2016, because of the conversion from its mainframe-based legacy system to GUS.⁷⁹ The director stated that the department was unable to generate and submit data in compliance with established file specifications to the Bureau of the Fiscal Service at the time of implementation. Additionally, the department and the GUS vendor did not complete the part of the system that processes receipts from the Treasury Offset Program until December 2016.

As of the end of our audit fieldwork, the department had not resumed exchanging files and receiving debt recoveries through the Treasury Offset Program; the Director of UI Recovery reported that this resumed in mid-January 2017.

Effect

As a result of ceasing activity within the Treasury Offset Program, the department did not recover overpayments as required by federal regulations. The Director of UI Recovery estimated that collections from May through December 2016 would have been \$1.3 million, based on the \$1 million collections for the corresponding time period during 2015 and the 13% increase since then. In our discussion with the director, she stated that the department would not be affected because the Bureau of the Fiscal Service held payments for the department for individuals whose debts were reported before May 1, 2016, and the department would receive these payments once it resumed exchanging files with the bureau. Although the department will receive payment for the debts reported before the GUS implementation, it lost the opportunity to intercept funds paid to individuals whose unemployment compensation debts should have been reported to the Bureau of the Fiscal Service since May 1, 2016.

⁷⁹ Other issues associated with the department's implementation of GUS are described in findings 2016-053, 2016-054, 2016-056, 2016-058 and 2016-061.

Recommendation

The Commissioner should ensure that the department resumes submitting files with delinquent debts to the Bureau of the Fiscal Service and accepting Treasury Offset Program payments. Additionally, the Commissioner and department management should ensure that new applications are functional and that testing is completed before changes to the department's systems are made.

Management's Comment

We concur in part.

The wording of the finding is misleading. The department *temporarily* suspended the Treasury Offset Program, only for implementation of the new UI system. While it was suspended, the files were held by the Internal Revenue Service and those have now been collected and processed by the department. As of January 23, 2017, the department is exchanging files and receiving debt recoveries through the Treasury Offset Program. The wording of the finding leads one to believe it was suspended permanently.

Finding Number	2016-056
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Because of technical difficulties with the recently implemented Geographic Solutions Unemployment System, the Department of Labor and Workforce Development was unable to submit a required financial report

Background

The U.S. Department of Labor (USDOL) requires state agencies, including the Department of Labor and Workforce Development (the department), to create and submit certain quarterly financial reports. For the Unemployment Insurance (UI) program, these reports include the Employment and Training Administration (ETA) 227 report, which provides information on intrastate and interstate claim overpayments.

On May 16, 2016, the department replaced its legacy system⁸⁰ used to process and record data relevant to the ETA 227 report. The new system, Geographic Solutions Unemployment System (GUS), is web-based and developed by the third-party vendor Geographic Solutions, Inc. Due to the department's recent implementation of GUS, Geographic Solutions, Inc. generated and provided the department with an electronic file of the ETA 227 report on August 5, 2016, for the quarter ended June 30, 2016. Upon receiving the electronic file, departmental staff uploaded it into USDOL's SUN system for standard edit checks.

SUN identifies two types of edit check errors:

- fatal errors, which are severe enough to prevent the department from saving the report in SUN; and

⁸⁰ Prior to implementing GUS, the department used the mainframe-based system Employment Security Combined Online Technology (ESCOT) to record and process overpayment claims.

- non-fatal errors, which allow the department to save the report in SUN and make corrective edits to the saved report at a later date.

Criteria

The UI Reports Handbook No. 401 establishes, “The ETA 227 report is due quarterly on the first day of the second month after the quarter of reference.” See Table 1 below.

Table 1
ETA 227 Due Dates

Report for Quarter Ended	Due the Following
March 31	May 1
June 30	August 1
September 30	October 1
December 31	February 1

We selected for testwork the report for the quarter ended June 30, 2016, because it was the latest one associated with our audit period, as well as the only one generated from GUS data.

Condition

For the quarter ended June 30, 2016, the department was unable to generate an ETA 227 report that would pass USDOL’s standard edit checks; consequently, the department had not submitted the report as of November 15, 2016, 106 days after the August 1, 2016, due date.

Based on discussion with the Program Specialist 3 responsible for the report and our own observations, edit checks within SUN specifically identified five errors in the report, including three fatal errors. The fatal errors occurred because three lines listed amounts exceeding the edit check’s “Maximum Allowable Amount.” See Table 2 for details.

Table 2
ETA 227 Fatal Errors

Fatal Error Count	Item	Line No.	ETA 227 Report Amount	Maximum Allowable Amount (Edit Check)
1	Recovered - Total	302	\$722,630,012,349.00	\$2,147,483,647.00
2	State Income Offset	305	\$722,629,826,226.00	\$2,147,483,647.00
3	Additions	310	\$722,681,812,332.00	\$2,147,483,647.00

In addition to these fatal errors, the edit check identified two non-fatal errors. Line number 313, “Outstanding at End of Period,” showed amounts of -\$9,057 and -\$10,928,587; however, edit checks did not allow the reporting of negative amounts for this line.

Cause

According to the Director of UI Integrity, the data from the department's legacy system did not convert correctly to GUS,⁸¹ which caused incorrect amounts to populate within the ETA 227 report. He noted that the department (a) had informed Geographic Solutions that resolution of the ETA 227 errors remained a high priority and (b) would continue to work directly with the vendor to achieve successful report submission.

Furthermore, prior to the implementation of GUS, management did not reassess and update the department's December 2015 Financial Integrity Act Risk Assessment to consider the risks associated with implementing GUS, including the system's inability to submit reports because of technical difficulties.

Effect

UI Reports Handbook No. 401 describes the purpose of the ETA 227 report as follows: "The state agency's accomplishments in principal detection areas of benefit payment control are shown on the ETA 227 report. The Employment and Training Administration (ETA) and state agencies need such information to monitor the integrity of the benefit payment processes in the UI system."

Therefore, when the department does not submit the ETA 227 report, both the department and USDOL suffer an impaired ability to monitor and analyze benefit payment process integrity.

Recommendation

Going forward, the department should take the following steps:

1. continue to work with Geographic Solutions, Inc. to identify and resolve the technical difficulties that prevented report submission;
2. ensure that future ETA 227 reports are accurate and submitted promptly in accordance with USDOL reporting instructions; and
3. update its risk assessment on an ongoing basis to address known risks, including those associated with new system implementations.

Management's Comment

We concur.

The department will continue to work with the vendor to identify and resolve the technical issues that are preventing the appropriate and accurate data from being extracted from the new Unemployment Insurance application. Also, the department's risk assessment will be updated to reflect reporting risks with the new Unemployment Insurance application.

⁸¹ We discuss data conversion issues further in finding 2016-053.

Finding Number	2016-057
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2015-054
Pass-Through Entity	N/A
Questioned Costs	N/A

Despite making improvements since the prior audit, the Department of Labor and Workforce Development again could not provide supporting documentation for all benefit non-charges

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 premium liability and employer experience rating.

When the department approves a claimant for benefits, it generates and sends a notice of claim filed 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 department's Benefit Charge Unit review returned notices of claim filed and determine whether a benefit non-charge is warranted based on the information provided by the employer.

To approve a benefit non-charge, unit staff code the employer's account as non-chargeable for that claim in the department's unemployment information system. This prevents the inclusion of benefits paid to the former employee in the calculation of the employer's experience rating and generates a benefit non-charge decision letter to the employer. Benefit Charge Unit staff then forward the employer's benefit non-charge request and supporting documentation to the department's Imaging Center for digitization.

Condition

In our *Single Audit Report* for 2015, we published a finding on the department's inability to provide supporting documentation for 10 of 60 benefit non-charges tested (17%). Management concurred with that finding and stated that the department would continue efforts to store and digitize benefit non-charge documentation.

For the current audit, we reviewed a random, nonstatistical sample of 60 benefit non-charges from a population of 49,030. Although we noted some improvement in error rates from the prior audit, we found that the department was unable to provide supporting documentation for 6 of 60 benefit non-charges tested (10%).

Given the problems identified during our fieldwork, we also reviewed the department's December 2015 Financial Integrity Act Risk Assessment. We determined that for the risk of overcharging employers on their premiums, management indicated they would "[e]nsure more than one person is assigned the duties to process employer non-charge requests" as a control activity.

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 has 15 days from the mailing date of the notice of claim filed to dispute the claim.

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 the Director of UI Integrity and the Director of UI Recovery, the department realigned the Benefit Charge Unit from the Division of Employer Accounts to the Division of UI Integrity in September 2015. Since that time, the department has sent all benefit charge documents to the Imaging Center (under UI Recovery) to be digitized immediately. The Director of UI Integrity and the Director of UI Recovery stated that while they were unsure as to the cause of any documents that might have gone missing after the Benefit Charge Unit's

realignment, a processing backlog existed when the Benefit Charge Unit was under Employer Accounts.

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 Benefit Charge Unit should continue efforts with UI Recovery to ensure that benefit charge documentation is adequately stored and readily available for examination.

Management's Comment

We concur.

We provided the required documents on 54 of the 60 claims that were audited. When the Benefit Charge unit receives a request for a non-charge, the employer's documentation is sent to the department's Imaging Unit to be scanned into the system. The breakdown likely occurred due to volume of charge notices and the necessity for manual processes. As of January 4, 2017, the Benefit Charge Unit began keeping a hard copy back up file to ensure that this does not happen again. The vendor of the new UI system, working with the Department, has created the ability for employers to upload documents directly into the system when protesting charges. We are also working with the vendor on the ability to bulk scan documents into the system. This functionality allows for multiple documents from various claimants and employers to be scanned at once and documents are stored in specific areas within the system based on a bar code.

Finding Number	2016-058
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Because of technical difficulties with the recently implemented Geographic Solutions Unemployment System, the Department of Labor and Workforce Development, in conjunction with the Department of Finance and Administration, submitted a required financial report that included uncorroborated and inaccurate amounts

Background and Criteria

The U.S. Department of Labor requires state agencies, including the Department of Labor and Workforce Development (the department), to create and submit certain quarterly financial reports. For the Unemployment Insurance program, these reports include the Employment and Training Administration (ETA) 191 report, which provides

1. a quarterly summary of Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-Servicemembers (UCX) expenditures and adjustments; and
2. a detailed statement of benefits the department paid to former employees of specific federal and military agencies.

The U.S. Department of Labor uses ETA 191 reports to bill federal and military agencies for reimbursement of benefits paid to federal civilian employee and ex-servicemember claimants.

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 federal reporting—will be managed and operated by the latter's staff. When preparing the ETA 191 report, fiscal staff must follow guidance established in the U.S. Department of Labor's Unemployment Insurance Reports Handbook No. 401. We list Handbook No. 401 instructions for relevant line items below.

Table 1
ETA 191 Reporting Instructions

Item No.	Description	Unemployment Insurance Reports Handbook No. 401 Reporting Instructions
1	Benefit Expenditures	Include in the appropriate columns all UCFE and UCX unemployment compensation benefits paid to eligible (as based on title 5 U.S. Code) Federal civilian claimants and ex-servicepersons during the reported quarter. (These expenditures should include only that portion of benefits paid from UCFE and UCX funds.)
2(b)	Restoration [Recovery] of Overpayments	Enter in the appropriate UCFE or UCX columns the total amount of restorations made during the current quarter of overpayments made in prior quarters. Restorations of overpayments received during the current quarter and based on expenditures in this current quarter should be reflected in item 1.
4(a)	Penalties and Interest	Enter the total amount of penalty and interest (P&I) received by the [state workforce agency] which results from prior UCFE or UCX payments.

On May 16, 2016, the department replaced its legacy system⁸² used to process and record data relevant to the ETA 191 report with the Geographic Solutions Unemployment System (GUS), a web-based system developed by a third-party vendor, Geographic Solutions, Inc. Prior to GUS, fiscal staff used Statements of Benefits Charged produced by the legacy system to compile ETA 191 reports. Following the implementation of GUS, Geographic Solutions, Inc. generated and provided fiscal staff with an electronic file of the ETA 191 report for the quarter ended June 30, 2016. Geographic Solutions, Inc. also provided the department with a series of queries from GUS that supported each field within the report. Fiscal staff submitted the ETA 191 report for the quarter ended June 30, 2016, to the U.S. Department of Labor on August 16, 2016.

We tested the ETA 191 report for the quarter ended June 30, 2016, because this was the last report that was included within our audit period and the first report to use data from the department's new GUS system.

Condition

Our testwork disclosed that the ETA 191 report fiscal staff submitted for the quarter ended June 30, 2016, included both uncorroborated and inaccurate amounts. Specifically, we identified problems with the following report lines: 1, "Benefit Expenditures"; 2(b), "Restoration of Overpayments"; and 4(a), "Penalties and Interest."

⁸² Prior to the implementation of the Geographic Solutions Unemployment System, the department used the mainframe-based system Employment Security Combined Online Technology to record and process unemployment claims.

Line 1

Fiscal staff were unable to provide documentation to support the amount of UCFE and UCX claims within report line 1. They gave us accounting records from Edison, the state's enterprise resource planning system, which included UCFE and UCX claim amounts; however, we could not reconcile these records with the report. See Table 2 for more details.

Table 2
Benefit Expenditures Reported Amounts Versus Accounting Records

	Reported Amount	Edison Amount	Difference
UCFE	\$295,701	\$275,621	\$20,080
UCX	\$364,919	\$350,512	\$14,407

Lines 2(b) and 4(a)

The amounts fiscal staff reported on lines 2(b) and 4(a) did not include all applicable overpayment benefit recoveries. Fiscal staff used queries from GUS to support the amount of benefit overpayments recovered from UCFE and UCX claimants shown on lines 2(b) and 4(a). We compared the GUS queries with a separate list of overpayment recoveries maintained by the department's Unemployment Insurance Recovery Unit. Our comparison revealed that the GUS queries excluded UCFE and UCX recoveries shown on the Unemployment Insurance Recovery Unit's list.⁸³

Table 3
Reported and Excluded Overpayments

	Amount Reported		Amount Excluded	
	2(b), "Restoration of Overpayments"	4(a), "Penalties and Interest"	2(b), "Restoration of Overpayments"	4(a), "Penalties and Interest"
UCFE	\$1,004	\$1,662	\$2,003	\$385
UCX	\$6,875	\$200	\$475	\$0

Cause

On July 25, 2016, the Accounting Manager requested an extension to the report's submission deadline from the U.S. Department of Labor because she could not reconcile the amounts on line 1, "Benefit Expenditures;" line 2(b), "Restoration of Overpayments;" and line 4(a), "Penalties and Interest" to the department's accounting records in Edison. The current Controller explained that while the former Controller⁸⁴ worked with Geographic Solutions, Inc. to identify and resolve

⁸³ Recoveries made via the Treasury Offset Program may be reported as a reduction to line 1 if collected during the same quarter the overpayment was reported or as an increase to line 2(b) if not collected in the same quarter. Internal Revenue Service disclosure regulations prohibited the department from providing us with detailed claimant information for Treasury Offset Program recoveries; therefore, we could not distinguish between payments representing a reduction to line 1 or an increase to line 2(b) or determine correct amounts for these lines. For more information about the Treasury Offset Program, see finding 2016-055.

⁸⁴ The former Controller retired from the department on August 30, 2016. After his retirement, we directed inquiries regarding the ETA 191 report to his successor (the current Controller).

issues potentially impacting the accuracy of the report, he was unable to complete this process by the end of the extension period.

Following report submission, the current Controller has continued to work with Geographic Solutions, Inc. to resolve the technical difficulties in GUS that caused the ETA 191 report inaccuracies. These technical difficulties relate to both data conversion and compilation.⁸⁵

Overall

Prior to the implementation of GUS, management did not reassess and update the department's December 2015 Financial Integrity Act Risk Assessment to consider the risks associated with implementing GUS, including the system's inability to submit reports because of technical difficulties.

Effect

When the department submits an ETA 191 report with inaccurate and uncorroborated amounts, it increases the risk that federal and military agencies are inaccurately billed for UCFE and UCX benefit payments.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. As noted in Title 2, *Code of Federal Regulations* (CFR), Section 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in Section 200.207, "Specific conditions:"

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance; or
- (6) Establishing additional prior approvals.

Section 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

⁸⁵ We discuss GUS implementation deficiencies further in finding 2016-053.

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

Fiscal staff, in conjunction with departmental staff, should:

- 1. continue to work with Geographic Solutions, Inc. to identify and resolve the technical difficulties that resulted in the inaccurate submission of the report;
- 2. ensure future ETA 191 reports are reconciled with accounting or other records; and
- 3. update the Department of Labor and Workforce Development's risk assessment on an ongoing basis to address known risks, including those associated with new system implementations.

Management's Comment

Department of Finance and Administration

We concur. The fiscal staff requested and was granted a 20 day extension to file the June 2016 report. During the extension period, staff worked with the Geographic Solutions, Inc. (GSI) developers to resolve the differences between GUS and Edison. Staff were, however, unable to resolve the differences during the extension period and informed by the USDOL that a second extension would not be granted. Per the ETA handbook instructions, correcting adjustments can be filed in subsequent quarters; therefore, the 191 report was submitted with unreconciled differences.

The ETA 191 report is a top ten critical item that is in development with GSI, and fiscal staff correspond frequently with GSI on the status of the report. The fiscal staff will continue to work with GSI developers to identify and resolve technical difficulties, as well as ensure future ETA 191 reports reconcile with the accounting records. The Finance and Administration's December 2016 risk assessment includes controls for fiscal staff to review report updates prior to being placed in production.

Department of Labor and Workforce Development

We concur.

TD's risk assessment will be updated to reflect reporting risks with the new Unemployment Insurance application.

Finding Number	2016-059
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development did not provide adequate procedures to detect dumping of state unemployment experience ratings

The Department of Labor and Workforce Development operates the Unemployment Insurance program to provide economic security to workers who lose their jobs through no fault of their own. SUTA (State Unemployment Tax Act) laws establish the funding mechanism for Unemployment Insurance benefits by requiring employers to pay quarterly premiums on taxable wages into a trust fund from which weekly payments are issued to eligible claimants. The Employment Security Division within the department determines each employer's premium liability based on the employer experience rating—a tax rate recalculated each year to reflect the employer's ongoing history with the unemployment system. SUTA law provides the method for calculating an employer's experience rating based on their average taxable payroll, cumulative premiums paid, and cumulative benefits paid to former employees who separated from that employer through no fault of their own. The experience rating calculation is designed to equitably distribute the costs of providing Unemployment Insurance benefits among employers.

Some employers engage in SUTA dumping schemes to fraudulently lower their unemployment experience rating and thereby reduce their premium liability. SUTA dumping schemes commonly involve employers executing prohibited experience rating transfers or avoiding mandatory experience rating transfers in business ownership transfer, merger, and acquisition scenarios.⁸⁶ To combat this problem, the federal *SUTA Dumping Act of 2004* amended Section 303(k)(1) of the *Social Security Act* to require states, as a condition of receiving Unemployment

⁸⁶ Examples of SUTA dumping schemes include (a) when an employer with a high experience rating purchases a shell company (defined by Investopedia as a company “without active business operations or significant assets”) with a low experience rating and transfers its workforce to the purchased company to receive the lower rate or (b) when an entity purchases an existing company with a low experience rating to avoid the higher new employer rate, but carries on a different trade or business than that of the purchased company.

Insurance administrative grant funding, to establish procedures to identify SUTA dumping and impose civil and criminal penalties on violators.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's system for detecting SUTA dumping. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential, pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided department management with detailed information regarding the specific vulnerability we identified, as well as the related criteria, cause, and our specific recommendations for improvement.

Recommendation

Management of the Employment Security Division should promptly develop and implement effective procedures to support SUTA dumping detection. 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.

While we acknowledge the SUTA dumping detection system (SDDS) was not operational, the department did conduct investigations to detect SUTA dumping while processing applications for new employer state identification numbers. Staff verifies that the Federal Employer Identification Number is unique before a new State Account Number is assigned. We are currently in the process of developing an alternative solution to detect SUTA dumping.

Finding Number	2016-060
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-28004-16-55-A-47, UI-28159-16-60-A-47, EUC, Fed EB, UCFE, and UCX, TUC-State Expenditures, FAC Benefits & UI Admin
Federal Award Year	2010 through 2016
Finding Type	Noncompliance
Compliance Requirement	Reporting Special Tests and Provisions
Repeat Finding	2015-050
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, 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

Overall Criteria

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.

Reporting

Background and Criteria

The U.S. Department of Labor (USDOL) requires state agencies, including the Department of Labor and Workforce Development (the department), to create certain quarterly performance and financial reports. For the Unemployment Insurance program, these reports include the Trade Activity Participant Report (TAPR), a performance report that facilitates the collection and reporting of background information on Trade Adjustment Assistance (TAA) program

participants, their training and services received, and the eventual earnings and employment information⁸⁷ collected after program exit.

Preparation of the Unemployment Insurance performance reports consists of accumulating earnings and employment data for in-state, 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. USDOL contracted with the State of Maryland for developing the earnings and employment data exchange, and Maryland 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 SUA [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 Appendix XI to "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations*, Part 200 — Compliance Supplement, 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 Appendix XI — Compliance Supplement instructs auditors to test 12 key line items on the TAPR report, 11 of which pertain to wage and employment data.

Condition

We obtained the population of 2,200 TAPR participants from the September 30, 2015, quarterly report extract, and 1,955 participants from the December 31, 2015, quarterly report extract, for a total of 4,155. From the total participants, we selected a nonstatistical, random sample of 60 participants (30 from each of the two extracts) to test the accuracy of wage and employment data appearing on the TAPR reports. Management stated that they were unable to provide supporting documentation for the wage and employment data because information from the Federal Employment Data Exchange System could not be shared without USDOL approval. Therefore, we were unable to fulfill the audit requirements prescribed in the Appendix XI — Compliance Supplement to determine the accuracy of the reported data.

Cause

During our prior audit, we contacted the Office of Workforce Information and Performance Director with the Maryland Department of Labor, Licensing and Regulation, who serves as the

⁸⁷ Employment data includes employment history and job retention information.

liaison between the State of Maryland and the University of Baltimore. We stated 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 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. On December 2, 2015, the Assistant Attorney General informed us that granting approval was not under her authority either and that she would forward our inquiries to the U.S. Department of Defense and the U.S. Office of Personnel Management. As of January 10, 2017, we have not received a response from either federal agency.

In our current audit, the Workforce Services Division's Assistant Administrator maintained that the department's data-sharing agreement for the Federal Employment Data Exchange System limits access to wage and employment data to personnel authorized by USDOL. Since all wage information, including the WRIS, WRIS2, and Federal Employment Data Exchange System data for out-of-state and federal workers, was combined in the system, department management were unable to provide the earnings and employment data.

Special Tests and Provisions

Background and Criteria

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 method the department uses to collect 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 Appendix XI — 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.

Condition

For our overpayments testwork, we selected 60 of the 13,163 benefit overpayments equal to or more than \$1,000 that were established in fiscal year 2016. In total, our testwork encompassed \$112,397 of the \$8,218,540 overpayments. The department used the Treasury Offset Program in its collection of one 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 (IRS) 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 Appendix XI — Compliance Supplement.

Cause

During our prior audit, department management inquired with the IRS about whether we could access the exact amount of individual principal and penalty amounts collected through the Treasury Offset Program. An IRS 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" [emphasis in original].

On October, 20, 2016, we revisited this matter with department management and the IRS' Disclosure Enforcement Specialist, Policy Analyst, Government Liaison, Disclosure Manager, and Safeguard Review Team Chief. The Disclosure Enforcement Specialist and other IRS officials stated that department management could not provide access to this information. The IRS personnel also indicated that the IRS and USDOL needed to resolve the apparent conflict between the audit guidance in the Appendix XI — Compliance Supplement and the IRS safeguard requirements regarding Treasury Offset Program data.

Effect

Without access to earnings and employment data and federal tax information, we cannot assess whether the TAPR reports were accurate or whether penalties due to fraud were properly deposited into the state's Unemployment Trust Fund.

In our prior audit, USDOL representatives instructed us to question any costs related to the Special Tests and Provisions compliance requirement. We subsequently questioned the \$5.5 million federal portion of the 2015 Treasury Offset Program collections. During the current audit, the Assistant Inspector General for the USDOL Office of the Inspector General stated that the funds in question would not represent questioned costs because they are an inflow of funds and that any instruction to question costs in the prior audit was likely due to miscommunication.

Recommendation

Management should ensure that earnings and employment data is not combined in its systems so that restrictions from one source (such as the Federal Employment Data Exchange System) prevent access to data from other sources that should otherwise be available for audit purposes. Additionally, management should, in coordination with USDOL, IRS, and other federal agencies, attempt to resolve the issues surrounding auditors' access to earnings and employment data and federal tax information.

Management's Comment

We concur.

The department agrees with the conditions mentioned in the finding. However, all possible corrective actions for the auditors to have access to FEDES data and IRS data are not within the control of the state department. The possible corrective actions are within the control of different federal departments/agencies.

The applicable divisions (i.e., Workforce Services Division, Unemployment Insurance Division, and Information Technology Division) will work with together to determine how to differentiate the WRIS and WRIS2 data from the FEDES data. This should provide for an allowable opportunity for the state auditors to view the WRIS and WRIS2 data, as the department does not have permission to provide FEDES data according to the data sharing agreement.

Finding Number	2016-061
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-27133-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-28159-16-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Repeat Finding	2015–055
Pass-Through Entity	N/A
Questioned Costs	N/A

Despite improving claimant identity verification procedures since the prior audit, the Employment Security Division’s key control for detecting fraudulent claims was ineffective for the fifth consecutive year; additionally, management could not provide a reliable benefit payment data file, inhibiting our ability to identify ineligible payments to state inmates, state employees, and deceased 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 independently verify information provided by claimants by performing cross-matches of data in the UI claims processing system to data obtained from third parties. For example, 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; Tennessee and interstate wages; 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.

During our audit period of July 1, 2015, through June 30, 2016, Employment Security Division staff, in coordination with the department’s Information Technology Division, performed cross-matches in the Employment Security Combined Online Technology (ESCOT) mainframe

application until its retirement on May 12, 2016. On May 16, 2016, the department implemented Geographic Solutions Unemployment System (GUS), a web-based UI claims management system developed and maintained by the vendor, Geographic Solutions, Inc. Following the implementation of GUS, division staff performed cross-matches in coordination with the department's Information Technology division and Geographic Solutions, Inc.

Division staff use cross-matches as primary controls to detect potential overpayments due to fraud or errors. 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 *Single Audit Report* for 2012, 2013, and 2014, 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. For the 2015 *Single Audit Report*, we found that the department's state inmate cross-match was still not functioning properly and the division continued to issue payments to individuals with unverified identities.

Condition

For the current audit, we concluded that while division management corrected identity verification problems specified in prior-year findings, there were still problems with the state employee, deceased person, state inmate, and Tennessee and interstate wage cross-match.

State Inmates, Vital Statistics, and State Employees

To assess the effectiveness of the division's cross-match processes, we attempted to perform our own analytical procedures and cross-matches by comparing the population of UI benefit recipients to populations of state employees, deceased individuals, and state inmates. Despite repeated attempts, division management was unable to provide us with a reliable benefits file from GUS to use for our independent cross-match. As a result, we could not determine whether the division identified, reviewed, and acted on ineligible payments to state employees and state inmates for the period July 1, 2015, to June 30, 2016, and to deceased persons for the period May 16, 2016, to June 30, 2016.

We also determined that the division's state employee and state inmate cross-matches in GUS did not provide sufficient information for staff to investigate the results. The state employee cross-match in GUS did not include the employee's agency name, pay period, and pay date in the cross-match results. The state inmate cross-match in GUS did not include the inmate's facility and dates of incarceration in the cross-match results. As such, division staff could not determine whether benefit recipients appearing in the cross-match results were in fact ineligible.

Tennessee and Interstate Wages

The division did not implement cross-match procedures in GUS to identify individuals who collected UI benefits while earning wages in Tennessee or another state. As of December 1, 2016, the division's most recent wage cross-match was executed in ESCOT based on benefits data and wage reports for the quarter ending March 31, 2016.

Risk Assessment

Given the problems identified during our fieldwork and in findings repeated since 2012, we also reviewed the department's December 2015 Financial Integrity Act Risk Assessment. We determined that management specified cross-matches as the controls to address the risk of paying improper or fraudulent claims and addressed the risk of computer systems failing to generate reliable or accurate data.

Criteria

The department is responsible for determining eligibility and disqualification provisions of individuals according to Tennessee Employment Security laws and regulations.

Overall Criteria

According to Title 29, *Code of Federal Regulations* (CFR), Part 97, Section 20(a),

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 99.300 further establishes that

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 Employees

Section 50-7-211(a), *Tennessee Code Annotated*, states that

An individual shall be deemed "unemployed" in any week during which the individual performs no services and with respect to which no wages are payable to the individual, or in any week of less than full-time work if the wages payable to the individual with respect to the week are less than the individual's weekly benefit amount.

Vital Statistics

According to Section 50-7-302(a), *Tennessee Code Annotated*,

An unemployment claimant shall be eligible to receive benefits with respect to any week only if . . . (4) The claimant is able to work, available for work, and making a reasonable effort to secure work.

State Inmates

Section 50-7-302(a)(4)(F), *Tennessee Code Annotated* provides that

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.

Tennessee and Interstate Wages

Under Section 50-7-301(c)(1), *Tennessee Code Annotated*,

Each eligible claimant who is unemployed in any week shall be paid with respect to the week a benefit in an amount equal to the claimant's weekly benefit amount, less that part of the wages, if any, payable to the claimant with respect to the week that is in excess of the greater of fifty dollars (\$50.00) or twenty-five percent (25%) of the claimant's weekly benefit amount.

Cause

State Inmates, Vital Statistics, and State Employees

Our independent cross-match was a complex process involving coordination with the department and other state agencies. For prior audits, department Information Technology staff provided us with a benefit file extract from ESCOT that included all benefits paid to recipients. We cross-matched this file to state employee, vital statistics, and state inmate populations we obtained from other state agencies; analyzed the results; and verified matching records with the other state agencies. We then compared our cross-match results to the division's results and provided our findings to management for review and comment. The entire process requires at least five weeks to complete.

For the current audit, we determined that our cross-match necessitated a benefit file extract from the new GUS system. GUS includes data from our entire audit period, whereas ESCOT only contains claims through its May 12, 2016, retirement date. Information Technology Division management communicated our benefit file extract request to Geographic Solutions, Inc. We list our request timeline for the GUS benefit file below:

Table 1
GUS Benefit File Request Timeline

Date	Event
September 9, 2016	We requested a GUS benefits file for our cross-match from the Information Technology Administrator and the Information Technology Director.
October 10, 12, and 18, 2016	We requested updates on the status of the GUS benefits file from Information Technology Division management.
October 19, 2016	We met with department management to emphasize our need to obtain the file in time to complete our independent cross-match before our audit deadline of December 9, 2016, which we established to ensure timely completion of the <i>State of Tennessee Comprehensive Annual Financial Report</i> .
October 20, 2016	We notified department management of our October 26, 2016, deadline to obtain the file.
October 26, 2016	The Information Technology Director provided us with the GUS benefits file. We began analyzing the file for completeness and reliability.
November 1, 2016	Our analysis identified records with payment dates outside the requested audit period date range, negative payment amounts, and blank payment dates. We met with the Information Technology Director and Information Technology Administrator to communicate our concerns.
November 2, 2016	We participated in a conference call with Geographic Solutions, Inc. and department management to discuss problems with the file. Geographic Solutions, Inc. resolved to modify the query used to extract the data file and provide an updated file by November 3, 2016.
November 4, 2016	The Information Technology Director provided the second iteration of the benefits file. We began analyzing the file for completeness and reliability.
November 8, 2016	We shared concerns about the completeness of the second file with department management. Specifically, the GUS file contained a significantly smaller number of unique claimants and almost half the benefit payment dollar amount when compared to the ESCOT benefits file over the same activity range of July 1, 2015, to May 16, 2016.
November 15, 2016	The Information Technology Director provided a third iteration of the benefits file. We again compared this file to the ESCOT file for the partial audit period July 1, 2015, to May 16, 2016, and noted disparities with additional claimants included in the GUS file but not ESCOT, and differing benefit payment amounts between identical Social Security numbers.

Because the department could not provide an accurate and complete benefits file by our October 26, 2016, deadline, we could not conduct an independent cross-match before our audit deadline.

While waiting for the second iteration of the GUS file, we used the limited time remaining until our audit deadline to complete a partial vital statistics cross-match from ESCOT data for July 1, 2015, to May 15, 2016; we identified no overpayments. We did not perform partial cross-matches for state employees and inmates because these have historically yielded more results and require extensive coordination with other departments compared to the vital statistics cross-match. After November 15, 2016, we continued working with Information Technology Division management to develop a reliable benefits file for use in future audits.

The division's state employee and state inmate cross-matches in GUS did not provide sufficient information for staff to investigate the results because the department did not include these requirements in the original specifications provided to Geographic Solutions, Inc. Division management notified Geographic Solutions, Inc. of the missing fields. As of January 13, 2017, vendor personnel had not yet reprogrammed the state employee and state inmate cross-matches to capture the information needed.

Tennessee and Interstate Wages

Before ESCOT's retirement, the division completed a final Tennessee and interstate wages cross-match for the quarter ending March 31, 2016. On October 4, 2016, the Director of UI Integrity requested for Geographic Solutions, Inc. to run Tennessee and interstate wages cross-matches for the same period in GUS so he could verify the accuracy and completeness of the results before initiating cross-matches for subsequent quarters. As of December 1, 2016, Geographic Solutions, Inc. had not yet executed the Director of UI Integrity's request due to prioritization of programming tasks affecting claimants' receipt of benefits.

Effect

Without access to a reliable benefits file, we cannot assess whether the division's cross-matches are programmed correctly, reviewed properly, and acted on promptly. Furthermore, when division staff do not have access to effective and timely cross-match results, the risk increases that benefits paid to ineligible state employees, inmates, deceased persons, and individuals who have re-entered the workforce go undetected.

Recommendation

In order to ensure UI benefits are only issued to eligible individuals, the Commissioner of the Department of Labor and Workforce Development and the Employment Security Administrator should ensure properly designed and timely executed cross-matches of benefit recipients, including state employees, vital statistics, state inmates, and individuals earning Tennessee or interstate wages. Management should continue collaborating with Geographic Solutions, Inc. to ascertain the reliability, completeness, and accuracy of data extracted from GUS.

Management's Comment

We concur in part.

The new UI system was generating hits on potential fraudulent activity; however, it was not providing necessary supporting information to allow for thorough investigation of the cross match. In working with the vendor, the department is now obtaining the supporting information required for a thorough investigation.

The department is continuing to work with Geographic Solutions, Inc., to validate the accuracy of the data extracted from GUS.

Finding Number	2016-062
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-28004-16-55-A-47, UI-28159-16-60-A-47, EUC, Fed EB, UCFE, and UCX, TUC-State Expenditures, FAC Benefits & UI Admin
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2015-053
Pass-Through Entity	N/A
Questioned Costs	N/A

For the third consecutive year, the Department of Labor and Workforce Development did not always 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). To fund the program, employers pay quarterly state unemployment taxes into a trust fund from which the department distributes benefits to eligible claimants. Each employer's unemployment tax rate is based in part on benefits collected by former employees.

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 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.

To determine whether a claimant qualifies for benefits, division staff collect and review information from the claimant and his or her former employer. The division sends a benefit charge letter to the claimant's most recent employers to notify them that a claim was filed and, if approved, its potential impact on their state unemployment tax rate. Claimants have the right to appeal if the division denies their claim for benefits. Likewise, employers may appeal approved claims to protect their state unemployment tax rate from future increases.

In the *Single Audit Report* for 2014 and 2015, we identified the following control weaknesses in the division's eligibility determination process that ultimately led to noncompliance:

- *2014 Single Audit Report*
 - o 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.
 - o 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.
- *2015 Single Audit Report*
 - o Conditions Noted: 1) Noncompliance with the federal benefit payment promptness standard and 2) interested parties not provided written notice of approved claims.
 - o Management's Response: Management concurred in part, explaining that timeliness was impacted by the backlog of claims during the first three months of the fiscal year. Management also said that the backlog was cleared as of October 1, 2014, and that the department continued to improve on the percentage of claims paid timely, ultimately meeting or exceeding U.S. Department of Labor standards. Management again disagreed that agency decision letters were always required.

For the current audit, we concluded that the department met or exceeded U.S. Department of Labor standards for benefit payment promptness for the federal performance period April 1, 2015, to March 31, 2016. On May 16, 2016, the department implemented Geographic Solutions Unemployment System (GUS), a web-based system developed and maintained by the vendor Geographic Solutions, Inc. to replace its legacy applications for processing UI claims. Following the implementation of GUS, the department returned to noncompliance with federal payment promptness standards. We detailed this condition in the audit report in a separate finding entitled, *"Following the implementation of a new information system, the Department of Labor and Workforce Development failed to review Unemployment Insurance claims prior to issuing benefits and did not review claims, pay benefits, respond to claimants' requests for assistance, or conduct appeals hearings in a timely manner"* (see Finding 2016-054).

Condition

From the population of UI benefit payments paid during fiscal year 2016, we tested 61⁸⁸ claims, totaling \$13,952. For 7 claims (11%), we noted that division staff did not provide a written notification of the agency's decision to the claimant and the claimant's separating employer. All 7 claims cited "lack of work"; however, division staff had treated these claims inconsistently with the 34 other "lack of work" claims in our sample, for which division staff properly sent written notifications of the agency's decisions to claimants and their separating employers.

⁸⁸ Of the 61 claims, we selected 60 randomly and the remaining 1 haphazardly.

Given the problems identified during our fieldwork and repeated findings from two prior audit reports, we reviewed the department's December 2015 Financial Integrity Act Risk Assessment as well. We determined that management did not address the risk of approving claims without issuing written notice to interested parties.

Criteria

Agency decision letters formally notify claimants and employers of the department's approval or denial of a claim for unemployment benefits and the parties' right to appeal that determination. The 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 the agency's decision for a claim and have sufficient time to respond within the 15-day appeal period, 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, the reason for the decision, and the parties' appeal rights.

Cause

For each of the seven claims, the employer verified lack of work with the department either by phone or by mail. Of these claims, six were regular Tennessee Unemployment Compensation (TUC) claims, and one was an Unemployment Compensation for Federal Employees (UCFE) claim.⁸⁹ For the six TUC claims, division management asserted that written notifications of agency decisions are unnecessary in these circumstances because the claims are uncontested and staff send employers 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.

⁸⁹ The UCFE program is administered by state UI agencies acting as agents of the federal government.

Based on our review of a benefit charge letter, however, the letter did not contain all the information required to be communicated for agency decisions. Specifically, the benefit charge letter did not provide the reason the department approved or denied the claim; 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.⁹⁰

Management stated that for the seventh claim, UCFE claim employers do not receive benefit charge letters but instead receive quarterly statements of benefit charges. Based on our review, the quarterly statement of benefit charges does not list the reason for determination and appeal instructions.

In our discussions with department management, we identified the agency decision letter as an internal control to ensure that benefit eligibility determinations are transparent and claimants and employers are aware of their appeal rights. According to the Administrator of Employment Security, the department’s goal is for GUS to generate agency decision letters for every claim. The Administrator of Employment Security stated that department staff is working with Geographic Solutions programming staff to make the necessary programming adjustments to GUS.

Effect

When division staff do not send written notifications of agency decisions of benefit determinations, claimants and employers may not be fully informed of the reason for the agency decision to approve or deny the claim for benefits. 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 the Employment Security Administrator 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 or type of claim. Management should also update the risk assessment to address the risk of not detecting ineligible benefit payments if the department does not formally notify claimants and employers of the agency decision.

⁹⁰ According to the division’s *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.”

Management's Comment

We concur in part.

As mentioned in the finding for each of the seven claims, the employer verified the lack of work status with the department either by phone or by mail. When lack of work status is verified by the employer and there are no other issues, then the department is approving the claim and no issue exists with the claim. Agency decision letters are only required when an issue with the claim exists. While it is not required to send an agency decision letter on verified lack of work claims, it is the department's goal to ensure that the new UI system does generate notification on all claims. As of February 15, 2017, this issue has been corrected and all claims should have a decision letter issued going forward.

Finding Number	2016-063
CFDA Number	17.225 and 84.002
Program Name	Unemployment Insurance Adult Education – Basic Grants to States
Federal Agency	Department of Labor Department of Education
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	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, UI-28004-16-55-A-47, UI-28159-16-60-A-47, EUC, Fed EB, UCFE, and UCX, FAC Benefits & UI Admin, TUC-State Expenditures, V002A120043, V002A130043, V002A140043, V002A150043
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2015-049
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development did not provide adequate internal controls in two specific areas

The Department of Labor and Workforce Development did not provide adequate internal controls in two specific areas, related to 14 of the department's systems. For one of the two areas, we are reporting internal control deficiencies that were repeated from the prior audit because corrective action was not sufficient. 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 these conditions are remedied by the prompt development and consistent implementation of internal controls in these 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.

For the first area noted in the finding, the department's Information Technology and Human Resources Divisions will work together, along with employee's supervisors to address and correct this inadequate internal control.

For the second area noted in the finding, the department's Information Technology Division will continue to address and correct this inadequate internal control.

Finding Number	2016-064
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
Federal Award	
Identification Number	V002A130043, V002A140043, V002A150043S
Federal Award Year	2013 through 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	2015-059
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, the department has not complied with subrecipient monitoring requirements

Background

The Department of Labor and Workforce Development’s Division of Adult Education administers the Adult Education – Basic Grants to States federal grant program through 42 local area organizations that serve as program subrecipients. These organizations were awarded approximately \$12 million in federal funding during fiscal year 2016.

In our past two audits, we found that the division did not properly monitor its subrecipients or ensure that it obtained and reviewed subrecipients’ audit reports. Additionally, in the prior audit, we noted that the division did not ensure that subrecipients were eligible to participate in the federal grant program. In our current audit, we found that management included Debarment and Suspension⁹¹ clauses in its grant agreements with the subrecipients but still did not meet subrecipient monitoring requirements.

Condition

Monitoring Activities

We determined that the division did not properly monitor its subrecipients:

- The Director of Performance and Compliance, who was responsible for the division’s subrecipient monitoring, submitted the division’s Monitoring Guide to the Central Procurement Office (CPO) in February 2016, four months after the deadline for doing so.

⁹¹ With the Debarment and Suspension clauses, the subrecipients attest to the department that they are eligible to participate in federal awards. Through the clauses, the subrecipients certify that they “are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal or state department or agency.”

- Division staff did not monitor 11 of the 20 subrecipients (55%) identified in the Monitoring Guide as high-risk entities that were scheduled for onsite reviews during fiscal year 2016.
- The Director of Performance and Compliance did not complete desktop monitoring reviews for the first, second, and fourth quarters of fiscal year 2016.

Audit Reports

Adult Education Division staff did not review all subrecipients' independent audit reports. Based on our examination of the spreadsheet used to document the review of audit reports, the Director of Performance and Compliance did not determine whether 25 of the 42 subrecipients (60%) were required to obtain single or program-specific⁹² audits.

Indirect Cost Rates

The division did not inform subrecipients of the rate that they were permitted to use for charging indirect costs to their federal awards.

Risk Assessment

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the department's Financial Integrity Act Risk Assessment.

⁹² The American Institute of Certified Public Accountants provides the following explanation:

Entities that receive federal funds are subject to audit requirements commonly referred to as "single audits" under the Single Audit Act of 1984, as amended in 1996. The Single Audit Act was enacted to standardize the requirements for auditing federal programs. The Act provides that grantees are subject to one audit of all of their federal programs versus separate audits of each federal program, hence the term "single audit."

If an entity receives federal funds through only one federal program and does not require a financial statement audit, it may choose to have a program-specific audit instead.

TABLE 1
RISK OF NONCOMPLIANCE WITH
SUBRECIPIENT MONITORING REQUIREMENTS

RISK	CONTROL
Subrecipients are not monitored in accordance with the requirements of OMB Circular A-133 and Title VI.	The department will perform on-site monitoring of subrecipients, based on risk.
Subrecipients' OMB Circular A-133 audit reports are not received and properly reviewed.	Comptroller of the Treasury's website is periodically monitored for audit reports on Tennessee Board of Regents schools. The department will begin receiving confirmation from other entities indicating they received less than \$500,000 in state and federal funding.
Subrecipients are not informed of all grant requirements and provisions.	Adult Education provides ongoing training and resource references posted on the website.

Source: Obtained from the Department of Labor and Workforce Development's December 2015 Financial Integrity Act Risk Assessment.

Management identified the risk of the problems noted in our finding but did not develop control activities that adequately addressed these risks.

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.

Monitoring Activities

The state's 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 requires state agencies to submit an annual monitoring plan to the CPO by October 1 each year.

The Adult Education Division's Monitoring Guide includes a system for assessing the risk level for subrecipients and lists 20 subrecipients that required onsite monitoring visits because they had a higher risk of noncompliance. The Monitoring Guide also states that division staff will conduct desktop monitoring for the individual programs on a quarterly basis.

Audit Reports

According to Title 34, *Code of Federal Regulations* (CFR), Part 80, Section 26(b), state or local governments that provide federal awards to subgrantees that expend \$500,000 or more in federal awards in a fiscal year shall "determine whether State or local subgrantees have met the audit requirements of the [Single Audit] Act [Amendments of 1996]" for subawards made using federal grant awards prior to December 26, 2014.

Similarly, for federal awards made after December 26, 2014, Title 2, CFR, Part 200, Section 331(f), states that pass-through entities such as the department must “verify that every subrecipient is audited ... when it is expected that the subrecipient’s Federal awards expended during the respective fiscal year equaled or exceeded the [\$750,000] threshold set forth in § 200.501 Audit requirements.”

Indirect Cost Rates

According to Title 2, CFR, Part 200, Section 331(a), the department must ensure “that every subaward is clearly identified to the subrecipient as a subaward and includes the following information ... Indirect cost rate for the Federal award (including if the de minimis rate is charged per § 200.414 Indirect (F&A [Facilities & Administration]) costs).”

Cause

Monitoring Activities

The Director of Performance and Compliance stated that he took over subrecipient monitoring after the employee who was previously responsible left and that he was not aware that a monitoring plan needed to be submitted until after the October 1 deadline.

As a result of management’s decision to restructure the administration of the program effective July 1, 2016, only eight subrecipients from fiscal year 2016 continued participating in the Adult Education program. In order to prepare for this change, division staff ceased performing the monitoring activities in the Monitoring Guide and focused on monitoring the subrecipients that would not receive funds after the end of fiscal year 2016. Despite changing the focus of its monitoring activities, the division did not monitor all of the subrecipients that were leaving the program, nor did it submit a revised monitoring plan to the CPO.⁹³

Audit Reports

The Director of Performance and Compliance stated that he was unaware of the requirement to review audit reports for all applicable subrecipients. Although the Director of Fiscal Services stated that program monitors obtain subrecipients’ audit reports as a part of the onsite review process, division management did not intend to conduct onsite reviews for all subrecipients and, as noted above, did not complete all of its planned reviews.

Indirect Cost Rates

According to the Director of Fiscal Services, the division did not specify to subrecipients the indirect cost rates that they were permitted to use because the subrecipients charged all

⁹³ Policy 2013-007 states that “agencies shall submit any proposed changes to an approved monitoring plan and an explanation for each proposed change to the Central Procurement Office for review and approval. The Agency shall document any approved changes to an existing plan.” The Director of Performance and Compliance stated that he was not aware that submitting a revision to the Monitoring Guide was an option.

administrative costs directly. Based on our expenditure testwork, however, the subrecipients, which offered other programs and services in addition to Adult Education, charged a portion of their costs for utilities and management salaries to the federal program. (The subrecipients, therefore, calculated the amounts to charge to the program using a rate and did not bill all costs directly to the program.)

Effect

Division management cannot be assured that subrecipients have complied with laws, regulations, and the provisions of grant agreements and that performance goals have been achieved unless it completes the necessary monitoring activities; verifies that all applicable subrecipients have obtained audits; and reviews the results of these audits. Without informing subrecipients of the allowed indirect cost rate, there is increased risk that subrecipients may charge expenditures to the program in excess of the allowed amounts.

Recommendation

The Commissioner and Adult Education Division Administrator should ensure that all department staff responsible for subrecipient monitoring are familiar with federal regulations and state policy related to subrecipient monitoring. The department management and staff should ensure that

- a monitoring plan is completed and submitted to the CPO before the October 1 deadline;
- the reviews defined as necessary in the monitoring plan are performed;
- if it becomes necessary to deviate from the approved monitoring plan, the plan is formally revised and resubmitted to the CPO for approval;
- all subrecipients are reviewed to determine whether they require single or program-specific audits;
- the audit reports are obtained and reviewed for all subrecipients that were required to have audits conducted; and
- the allowed rates that may be charged to the grant awards for indirect costs are formally communicated to subrecipients.

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 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 concur.

Adult Education is aware of the shortfalls of its monitoring process and has made strides in improving the methods of monitoring its subrecipients. The Monitoring Guide for 2016-2017 has been submitted timely (i.e., by the October 1st deadline) and approved by the Central Procurement Office. Monitoring visits are being conducted in the current program year. In fact, one on-site visit was conducted during January 30, 2017, through February 3, 2017; a second visit was conducted during February 21, 2017, through February 24, 2017; and two other on-site visits are to be completed by the end of the monitoring cycle.

The Director of Performance and Compliance is in the process of obtaining and reviewing single audits of the subrecipients receiving federal funds, in order to ensure compliance with this requirement.

Finding Number 2016-065
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
Federal Award Identification Number V002A130043, V002A140043, V002A150043
Federal Award Year 2013 through 2017
Finding Type Material Weakness and Noncompliance
Compliance Requirement Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Matching, Level of Effort, Earmarking
Repeat Finding 2015-060
Pass-Through Entity N/A
Questioned Costs

	Federal Award	
CFDA	Identification Number	Amount
84.002	V002A140043	\$3,395
84.002	V002A150043	\$26,111

As reported in the prior two audits, the Adult Education Division did not ensure that subrecipients' documentation was sufficient to support the reimbursement requests, which resulted in the division paying the subrecipients for unallowable costs

Background

The Department of Labor and Workforce Development's Adult Education Division administers the Adult Education – Basic Grants to States program. The grants through this program are intended to help adults obtain the knowledge and skills necessary for employment; obtain the educational skills necessary to become full partners in the educational development of their children; and complete secondary school education. During fiscal year 2016, the division contracted with 42 local area organizations that served as program subrecipients. These organizations were awarded approximately \$12 million in federal funding during the fiscal year and were required to submit monthly reports requesting funds based on their expenditures. Until March 2016, the division reviewed supporting documentation that subrecipients submitted along with their monthly requests for the drawdown of funds before approving the request. The division requires this documentation (whether submitted or maintained at the subrecipients' sites) to support that the subrecipients' requests for funds are for allowable costs and that the subrecipient provided the required matching amounts.

As the pass-through entity, the department's Adult Education Division is responsible for ensuring that the subrecipients comply with all applicable requirements. The department can only reimburse subrecipients through federal grants for allowable activities and costs as defined by federal regulations. Federal regulations also require the state to provide a match of 25% of program funds spent, and the state passes a portion of this matching requirement to its

subrecipients. The subrecipients may satisfy this matching requirement by providing in-kind contributions such as staff services or equipment. Additionally, federal earmarking requirements state that only 5% of federal funds received by the state may be used for non-instructional, administrative costs.

In our past two audits, we found the division did not require subrecipients to submit sufficient documentation to support their costs and match amounts. Division management concurred in part with the prior audit finding and made entries in the accounting system to correct specific errors, but indicated that the documentation provided “was considered adequate for payment submission” and did not strengthen their controls to ensure documentation was sufficient based on conditions reported in prior findings.

Condition

Based on our audit work, we found that division management did not have controls in place to ensure reimbursement requests were adequately supported, nor did they have an adequate subrecipient monitoring process to ensure compliance with the federal requirements related to Activities Allowed or Unallowed; Allowable Costs/Cost Principles; and Matching, Level of Effort, and Earmarking.

The Adult Education Division Administrator decided that after March 2016 the division would no longer require subrecipients to submit supporting documentation (prior to the division’s payment) with the reimbursement requests. Instead, management decided to review the documentation after the division reimbursed the subrecipient through the subrecipient monitoring process. Division management also required subrecipients to complete Time and Effort forms to support that their staff time was sufficient to meet earmarking requirements. The division did not obtain these forms to facilitate the reimbursement process and planned to rely on subrecipient monitoring after payments to the subrecipients were made.

We performed testwork on a sample of program expenditures and all expenditures exceeding \$149,091 (individual expenditures large enough to be individually material to the program by themselves). From the total population of 6,117 program expenditures, totaling \$12,732,263.93 during the fiscal year, we selected a random nonstatistical sample of 60 expenditures. We also identified and selected all of the individually significant expenditure items, totaling \$4,577,557.92 during the fiscal year. We requested all supporting documentation for these items and allowed division management time to request the documentation from the subrecipients. We found that the subrecipients either provided inadequate documentation or did not provide the documentation at all.

Based on our testwork:

- for 7 of 60 transactions tested (12%), we could not determine that the transactions were for allowable costs, resulting in \$10,581 of federal questioned costs and \$2,569 of state questioned costs for the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements;

- for 1 of 60 transactions⁹⁴ tested (2%), we could not determine that the subrecipient complied with matching requirements because it lacked adequate supporting documentation to support its reported match, resulting in \$669 in state questioned costs for the Matching, Level of Effort, and Earmarking compliance requirement; and
- for 1 of 7 individually significant transactions tested (14%), we could not determine that the transaction was for an allowable cost, resulting in federal questioned costs of \$18,925 and \$3,786 of state questioned costs for the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Given the problems identified in our testwork and in the prior audit, we also reviewed the Department of Labor and Workforce Development's Division of Adult Education's December 2015 Financial Integrity Act Risk Assessment and determined that management's risk assessment did not address the risk that subrecipients' drawdown requests would not be properly supported.

Criteria

According to the Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03, management should design "appropriate types of control activities for the entity's internal control system" and these activities should "help management fulfill responsibilities and address identified risk responses in the internal control system."

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 403, states that for costs to be allowable they must "[b]e adequately documented."

According to Title 20, *United States Code* (USC), Chapter 73, Section 9222 (b)(1)(B), the division is required to provide a match of 25% of the total amount of funds expended for adult education and literacy activities in the state. Title 34, CFR, Part 74, Section 23(a), states, "All contributions, including cash and third party in-kind, are accepted as part of the recipient's cost sharing or matching when contributions: ... [a]re verifiable from the recipient's records."

According to Title 20, USC, Chapter 73, Section 9243, subrecipients must use 95% of the subawards received to carry out education and literacy activities. The remaining 5% is to be used for non-instructional costs such as planning, administration, personnel development, and interagency coordination.

Cause

As noted above, the Administrator decided that after March 2016, subrecipients would no longer be required to submit supporting documentation with their monthly requests for the drawdown of funds to the division but would be required to maintain this documentation for review during subrecipient monitoring. According to the Administrator, it was inefficient to have division staff perform a full audit of each subrecipient every month. Division management instead relied on

⁹⁴ This transaction was included in the seven transactions in the first bulleted item. Since the costs associated with the transaction were already questioned, we will not question them again.

the division's subrecipient monitoring to ensure compliance with the federal requirements mentioned above. The division could not ensure that all subrecipients met program requirements, however, since each subrecipient was not scheduled to be monitored every year, and monitors only examined samples of drawdown requests for those that were monitored. Additionally, we determined that the division's subrecipient monitoring was not conducted appropriately during the fiscal year. (See finding 2016-064.)

Effect

Without proper controls, the division cannot ensure that federal funds have been properly managed and used, potentially resulting in the loss of funds. Division management cannot be certain that costs without adequate supporting documentation are allowable and have been earmarked for certain activities as required. Without verifying the subrecipient portion of match, the state may not meet federal matching requirements and could, therefore, be ineligible to receive all available federal funds.

Recommendation

The Administrator should ensure that proper internal controls are developed and implemented to comply with federal and state regulations (and that staff comply with these controls). Specifically, the Administrator should ensure that staff examine supporting documentation either when reviewing subrecipients' drawdown requests or when completing subrecipient monitoring. If the division relies on subrecipient monitoring to ensure that subrecipients have met federal cost, matching, and earmarking requirements, the Administrator should ensure that an effective system of on-site and desktop reviews is developed and that all monitoring activities are properly completed.

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 concur in part.

Actual receipts were collected from subrecipients for the months of July 2015 through February 2016, but were not collected for the months of March 2016 through June 2016. However, an Adult Education Expense Worksheet was provided by each subrecipient that the division used to determine categories, which were deemed as allowable activities. The subrecipients were instructed to maintain all documentation at the local level.

The division has restructured into eight (8) subrecipients. In addition to the program monitoring, the division has also incorporated fiscal monitoring by the department's Program Accountability

Review Unit. The fiscal monitoring includes a review of supporting documentation for allowable expenditures and appropriate match calculations. One on-site visit was conducted during January 30, 2017, through February 3, 2017; a second visit was conducted during February 21, 2017, through February 24, 2017; and two other on-site visits are to be completed by the end of the monitoring cycle.

Finding Number	2016-066
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Federal Award	
Identification Number	4712TN002L97E
Federal Award Year	2014
Finding Type	Noncompliance
Compliance Requirement	Procurement and Suspension and Debarment
Repeat Finding	N/A
Pass-Through Entity	Department of Transportation
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
20.205	4712TN002L97E	\$466,262

The Department of Transportation’s Environmental Division failed to monitor and review the bidding process used by its subrecipient, the Mississippi River Corridor – Tennessee, Inc., resulting in noncompliance and questioned costs of \$466,262

Background

In 2013, the Department of Transportation’s Environmental Division entered into a contract agreement with the Mississippi River Corridor – Tennessee, Inc. (MRCT) for the construction of an interpretive visitor center for the Great River Road – Tennessee National Scenic Byway in Reelfoot Lake State Park. Acting as a pass-through entity, the department funded this contract through the Federal National Scenic Byways Program, which is under the Federal Highway Planning and Construction Cluster administered by the department as a pass-through entity.

During our 2016 Single Audit testwork, we received allegations concerning the contractor. To address those allegations, we performed routine audit procedures at the department and worked in conjunction with our office’s investigators to focus on issues relative to the department’s and the contractor’s responsibilities. Although we have finished our audit fieldwork for the department, other work at the contractor level is ongoing.

Based on work performed at the department, we found that the department staff did not monitor to ensure the contractor complied with the state’s contract bid procedures and did not monitor the contractor’s spending to ensure contract terms were met. We found the following conditions:

Condition and Criteria

We found that TDOT management failed to properly and adequately monitor the MRCT contract to ensure that the subrecipient followed federal and state procurement laws.

According to Office of Management and Budget Circular A-133,⁹⁵ *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 the Federal agency. . . .
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (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.

In addition, the State of Tennessee has established policies and procedures related to the procuring of goods and services to ensure that the goods and services are purchased in an ethical and nonbiased manner. These policies also require state agencies to follow established competitive bid procedures to ensure goods and services are procured at costs that are in the state's best interest. In our review of the MRCT contract and MRCT management's responsibilities, we noted the following problems related to MRCT's subcontracting for goods and services:

Designer Procurement

- MRCT failed to obtain competitive bids when seeking the service of a project designer as required; instead, MRCT awarded the \$148,000 contract (plus compensation for hourly rates and reimbursable expenses) to an architect firm that had a direct conflict of interest with MRCT. We found that a partner with the architect firm also served as a member of MRCT's Advisory Council. According to the Assistant Division Administrator for the Federal Highway Administration – Tennessee Division, for architect contracts under \$150,000, the federal rules state that the state's procurement laws should be followed. Also, according to the State Architect *Designer Selection Process*, for minor projects, which are projects less than \$3 million, state agencies are required to provide a notice on their website, or instead may directly solicit a minimum of three designers who are appropriately licensed and are registered with the Office of the State Architect. MRCT could not provide any evidence that the company solicited bids from any entity other than the firm selected. Because the department did not ensure that MRCT followed required bid procedures to subcontract with the designer, we have questioned costs paid to the subcontractor

⁹⁵ The Department of Transportation entered into this grant contract in September of 2013, before the implementation of Uniform guidance on December 26, 2014; therefore, Circular A-133 would still be the applicable criteria.

as of June 30, 2016, , totaling \$141,029, as these costs are subject to disallowance by the state and/or the federal grantor.

Contractor Procurement

- MRCT and the architect firm failed to publicly advertise the request for bids for the construction contract. We determined through review of the contract and bid documentation submitted to the department that MRCT and the architect contacted three potential construction contractors requesting that they provide bids. According to the Assistant Division Administrator for the Federal Highway Administration – Tennessee Division, for construction contracts that are non-national highway system, the federal rules require that the state’s procurement laws should be followed. The *State of Tennessee Real Estate Asset Management’s Designer Manual*, 5.02 Soliciting Bids Public Advertisement for Bids, states,
 1. The owner [agency responsible for construction] is responsible for placing an advertisement for bids in the “Legal” classification of appropriate newspapers, when advertising is required.
 2. If the Maximum Allowable Construction Cost exceeds fifty thousand dollars (\$50,000), an Advertisement for Bids shall be published normally once a minimum of four (4) weeks prior to the bid date in at least one newspaper having circulation in the area. The advertisement shall normally run on a Wednesday.

Again, because the department did not ensure that MRCT followed the state’s established policy, the construction subcontract is questionable and may be disallowed by the state and/or the federal grantor. We questioned the entire \$325,233 that has been paid through the construction contract on the basis of the contract not being bid properly.

Cause

According to management, the Environmental Division’s monitoring review process did not ensure that the monitoring staff determined that the contractor or subrecipient had complied with all applicable policies and procedures, including procurement and bid requirements.

Effect

Failure to ensure that subrecipients follow proper state and federal policies and procedures increases the department’s risk of noncompliance, error, fraud, waste, or abuse.

Recommendation

The Commissioner and Environmental Division management should ensure that department monitors perform monitoring activities to determine that subrecipients have followed established state and federal policies and procedures and regulations.

Management's Comment

We concur. The Highway Beautification Office has updated its written Grant Monitoring and Invoice Review Procedures and the Specific Liter Grant Programmatic Accountability and Monitoring Measures. These procedures have been reviewed by TDOT external audit and will be reviewed and revised annually as needed. Grant invoices are now reviewed by three staff members for compliance. A quality assurance review is completed by the Highway Beautification Office Manager. All grantees will receive training specific to their grant for paperwork processing, grant accounting, invoicing, reporting and successful accomplishment of grant goals. All subrecipients will receive an on- site visit and evaluation once every three years.

Finding Number	2016-067
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Federal Award	
Identification Number	470311028L24E23
Federal Award Year	2013
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2015-067
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
20.205	470311028L24E23	\$78,578

Although the department implemented corrective action based on prior findings, management could not obtain required documentation from one utility vendor to support utility relocation expenditures resulting in noncompliance and questioned costs of \$78,578

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 Finance Office's Accounts Payable section performs the final approval of all relocation expenditures for payment.

Condition, Criteria, and Cause

For our current audit period of July 1, 2015, through June 30, 2016, we obtained a list of all 203 payments the department made directly to utility providers for utility relocation, totaling \$13,169,346. We then selected a random, nonstatistical sample of 60 payments, accounting for \$8,722,050 in total payments to the utility providers. The department corrected the prior conditions involving payments exceeding estimated contract amounts, reimbursements made

outside the term of the contract, improper approvals for reimbursements exceeding contract thresholds, and incorrect mileage rates. The department has not fully corrected the prior-year condition related to obtaining sufficient documentation prior to approval of provider reimbursement requests, which ultimately resulted in \$78,578 in federal questioned costs.

Insufficient Supporting Documentation

For 1 of 60 payments reviewed (2%), 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 \$78,578.

According to Title 23, *Code of Federal Regulations*, 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.”

According to management, the vendor, Tennessee Valley Authority, was not receptive to management’s request for supporting documentation and repeatedly has told management that it will only provide supporting information under a formal audit. We specifically requested supporting documentation related to this payment, and the department was able to obtain the supporting documentation from the vendor. Based on our review of the support, we found that the documentation was inadequate to determine that the federal grant was properly charged; therefore, we questioned the unsupported costs.

Effect

Without full cooperation from the utility vendor to provide sufficient supporting documentation upon request, the department cannot comply with federal requirements.

Recommendation

The Commissioner and staff should ensure compliance with all contract provisions and all federal laws. Specifically, the Finance Office should ensure that adequate supporting documentation is obtained from the vendor prior to approving reimbursement requests for payment. The Commissioner should emphasize to Tennessee Valley Authority that the department cannot comply with federal grant requirements without their full cooperation in providing all proper supporting documentation.

Management’s Comment

We concur. The Department of Transportation has made significant improvement since the prior audit. The utility vendor mentioned in the finding is the Tennessee Valley Authority, a corporate

agency of the United States created by congressional charter. We have had and continue to have issues obtaining documentation from TVA that is required of other utility vendors for this same type of work. We are working with the Tennessee office of the Federal Highway Administration to agree on documentation to be required of TVA.

Finding Number	2016-068
CFDA Numbers	10.558, 10.559, 10.561, and 84.126
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Supplemental Nutrition Assistance Program Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Agriculture Department of Education
State Agency	Department of Human Services Department of Labor and Workforce Development
Federal Award Identification Number	2011IN109945; 2012IN109945; 2013IN109945; 2014IN109945; 2015IN109945; 201616N109945; 2010IN109945; 5TN400419; 5TN430420; H126A100063; H126A120063; H126A130063; H126A140063; H126A150063; H126A160063
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2015-072
Pass-Through Entity	N/A
Questioned Costs	

CFDA	Federal Award Identification Number	Amount
10.558	2011IN109945; 2012IN109945; 2013IN109945; 2014IN109945; 2015IN109945; 201616N109945	\$13,971
10.559	2010IN109945; 2012IN109945; 2014IN109945;	\$214
10.561	2015IN109945; 201616N109945	\$7
84.126	5TN400419; 5TN430420 H126A100063; H126A120063; H126A130063; H126A140063; H126A150063; H126A160063	\$14,436

As noted in the prior two audits, grant funds were used for unallowable real property acquisition, resulting in federal questioned costs of \$28,628

Condition

Southwest Human Resource Agency (SWHRA)⁹⁶ continued to use federal funds received through the state's Department of Human Services and Department of Labor and Workforce Development to pay for the acquisition of its central office building, resulting in federal questioned costs of \$28,628⁹⁷ for fiscal year 2016. 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, 2016

Federal Awarding Agency	State Awarding Agency	CFDA Number	Federal Program Name	Amount
U.S. Department of Agriculture	Tennessee Department of Human Services	10.558	Child and Adult Care Food Program	\$13,971*
U.S. Department of Agriculture	Tennessee Department of Human Services	10.559	Summer Food Service Program for Children	214
U.S. Department of Agriculture	Tennessee Department of Labor and Workforce Development	10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	7
U.S. Department of Education	Tennessee Department of Human Services	84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States	14,436
				\$28,628

* SWHRA charged \$13,971 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.

⁹⁶ 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.

⁹⁷ "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations*, Part 200, Section 516, requires us to report known questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. The federal questioned costs of \$28,628 presented here are for those major programs where questioned costs exceed \$25,000. Although the questioned costs for all programs within this finding are less than \$25,000, additional questioned costs are noted in 2016-014, 2016-016, 2016-021, 2016-022, 2016-029, 2016-030, 2016-034, 2016-035, and 2016-036.

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the departments' Financial Integrity Act Risk Assessments. We determined that management for both departments identified the risk of unallowable costs being charged to federal programs, but the Department of Human Services did not identify the specific controls to mitigate this risk.

Criteria

According to "Cost Principles for State, Local, and Indian Tribal Governments," Title 2, *Code of Federal Regulations* (CFR), Part 225, Attachment B, Section 15.b, and "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, CFR, Part 200, Section 439 (for federal awards before and after December 26, 2014, respectively), 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.⁹⁸

Cause

In our discussions with SWHRA's Executive Director during the fiscal year 2014 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 two prior audit findings, the departments of Human Services and Labor and Workforce Development continued to provide federal funds to SWHRA for the costs of its building during fiscal year 2016.

- In response to the prior audit findings, management for the Department of Human Services concurred in part. Management stated that it did not agree with the amounts for its programs and that, once it had obtained more information from SWHRA, it would begin the recoupment process. On June 10, 2016, SWHRA's Executive Director submitted a written request to the U.S. Department of Health and Human Services, seeking retroactive approval for the building costs. Based on discussion with the Accounting Director for the Department of Human Services in January 2017, the department is withholding collection efforts until the federal agency responds to SWHRA's request.
- Department of Labor and Workforce Development management, who concurred in part with the prior findings, took no action in response to the building costs charged to its other programs until it received a final determination from the U.S. Department of Labor on April 13, 2016, disallowing the costs. On November 9, 2016, management notified SWHRA that it would not authorize reimbursement of central office building costs from its Workforce Innovation and Opportunity Act programs.

⁹⁸ Food and Nutrition Service Instruction 796-4, Rev. 4.

According to the Assistant Director within the Workforce Services Division, management was unaware that SWHRA also charged building costs to the State Administrative Matching Grants for the Supplemental Nutrition Assistance 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. Federal regulations address actions that may be imposed by federal agencies in cases of noncompliance. As noted in 2 CFR 200.338, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the Federal awarding agency or pass-through entity may impose additional conditions," including, as described in 2 CFR 200.207:

- (1) Requiring payments as reimbursements rather than advance payments;
- (2) Withholding authority to proceed to the next phase until receipt of evidence of acceptable performance within a given period of performance;
- (3) Requiring additional, more detailed financial reports;
- (4) Requiring additional project monitoring;
- (5) Requiring the non-Federal entity to obtain technical or management assistance;
or
- (6) Establishing additional prior approvals.

Furthermore, 2 CFR 200.338 also states,

If the Federal awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the Federal awarding agency or pass-through entity may take one or more of the following actions, as appropriate in the circumstances:

- (a) Temporarily withhold cash payments pending correction of the deficiency by the non-Federal entity or more severe enforcement action by the Federal awarding agency or pass-through entity.
- (b) Disallow (that is, deny both use of funds and any applicable matching credit for) all or part of the cost of the activity or action not in compliance.
- (c) Wholly or partly suspend or terminate the Federal award.
- (d) Initiate suspension or debarment proceedings as authorized under 2 CFR part 180 and Federal awarding agency regulations (or in the case of a pass-through entity, recommend such a proceeding be initiated by a Federal awarding agency).
- (e) Withhold further Federal awards for the project or program.
- (f) Take other remedies that may be legally available.

Recommendation

The Commissioners of the Human Services and Labor and Workforce Development departments should ensure that unallowable costs are recovered from SWHRA and that the federal awarding agencies are properly reimbursed. The management of both 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. If SWHRA continues to use federal funds to pay for the acquisition of its central office building, management should impose additional conditions upon the subrecipient or take other action, as described in 2 CFR 200.207 and 200.338. In addition, Department of Human Services' management should include controls that address the risk of unallowable costs charged to federal programs in its annual risk assessment.

Management's Comments

Department of Human Services

The Department concurs in part.

The Department agrees that Summer Food Service program should not be used to fund the building acquisition. In 2015, the Department informed Southwest Human Resource Agency (SWHRA) management in writing that Summer Food Service Program funds must not be used for acquiring real property. The Department will initiate the recovery process of the \$214 identified in the finding.

The Department followed up with the management at (SWHRA) regarding the acquisition of the building. SWHRA sent a letter dated June 10, 2016, to the U.S. Department of Health and Human Services (U.S. DHHS) requesting approval for the acquisition of the building. As of March 1, 2017, the Department had not received a final decision from the U.S. DHHS whether to allow the cost associated with acquisition of the building. The Department will properly address the finding, including questioned costs, based on the U.S. DHHS final decision.

The Department does not agree that all of the \$13,971 paid for building-related expenditures can be recouped since the amount allocated to the Child and Adult Care Food Program (CACFP) remains unknown. However, since SWHRA received funding for the Head Start Program directly from the federal government, the Department will work with SWHRA management to recoup any CACFP funds used for the acquisition of the building.

Department of Labor and Workforce Development

We concur.

TDLWD is working with the USDOL Office of Audit Resolution to resolve the issue. A corrective plan has been submitted the USDOL Regional Office to allocate depreciation expense on the Central Office Building among the different programs, based on occupied square footage. This plan has been approved by the Regional Office and forwarded to the National USDOL Office of Audit Resolution for initiating the Initial Determination. As of February 20, 2017,

TDLWD is awaiting word from USDOL Office of Audit Resolution regarding our Initial Determination. If approved by the USDOL, then the allocated depreciation would be considered allowable, but the remaining amount of questioned costs would be classified as disallowed. TDLWD would then follow proper procedures to recover any disallowed costs.

In addition, as part of the corrective action, TDLWD provided the following documentation when corresponding with the USDOL Regional Office:

- Established new Property Management Policy approved by the State Workforce Development Board on November 18, 2016. This policy has been distributed to all Local Workforce Development Areas that are responsible for the distribution of federal funds (including the SNAP funds in question). The policy addresses the allowability requirements for leasing and/or purchasing real property.
- The TDLWD Subrecipient Monitoring Guide was revised December 2016 and submitted to the Regional Office for review, as well as made available to all subrecipients of TDLWD utilizing federal funds.

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, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Unclustered Programs					
Peace Corps					
08.U01	Peace Corps PC-12-8-070 Wood		PC-12-8-070	\$ (7,696.65)	\$ -
08.U02	Peace Corps PC-15-8-053 Wood		PC-15-8-053	13,988.25	-
Subtotal Peace Corps				\$ 6,291.60	\$ -
Department of Agriculture					
10.001	Agricultural Research_Basic and Applied Research			\$ 1,513,679.24	\$ -
10.025	Plant and Animal Disease, Pest Control, and Animal Care	Association of Research Directors	15-5000-1890-CA	\$ 1,331,630.82 13,697.57	-
				1,345,328.39	-
10.028	Wildlife Services			1,056.99	-
10.069	Conservation Reserve Program			122,801.00	-
10.156	Federal-State Marketing Improvement Program			40,150.43	-
10.168	Farmers' Market and Local Food Promotion Program			16,687.45	-
10.170	Specialty Crop Block Grant Program - Farm Bill			425,029.60	296,533.31
10.171	Organic Certification Cost Share Programs			20,643.56	20,643.56
10.200	Grants for Agricultural Research, Special Research Grants	University of Florida University of Florida University of North Carolina	1500343168 1600411202 5102288	\$ 2,835.34 2,500.00 39,218.48	-
				44,553.82	-
10.202	Cooperative Forestry Research			816,705.25	-
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act			6,506,646.10	-
10.215	Sustainable Agriculture Research and Education	University of Georgia University of Georgia	2014-38640-22155 RD309-129/5054856	\$ 37,209.92 11,210.18	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		University of Georgia	RD309-129/8644757	16,124.22	
		University of Georgia	RD309-129/S001038	10,132.31	
		University of Kentucky Research Foundation	3048109597-13-034	4,826.92	
					79,503.55
10.216	1890 Institution Capacity Building Grants			\$ 528,508.87	
		Alabama Agricultural and Mechanical University	2013-38821-21103	18,914.52	
					547,423.39
10.217	Higher Education - Institution Challenge Grants Program				48,592.04
10.220	Higher Education - Multicultural Scholars Grant	North Carolina Agricultural and Technical State University	2014-38413-21797		22,800.49
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants				27,837.10
10.303	Integrated Programs				207,191.30
10.304	Homeland Security_Agricultural			\$ 96,627.42	
		University of Florida	UFDSP00010249	22,572.37	
					119,199.79
10.307	Organic Agriculture Research and Extension Initiative			\$ 11,260.10	
		Rutgers, The State University of New Jersey	4828	20,318.89	
					31,578.99
10.309	Specialty Crop Research Initiative			\$ 53,244.06	
		Brigham Young University	12-0356	9,742.54	
		University of Massachusetts	12-007055-D-00	3,345.81	
					66,332.41
10.310	Agriculture and Food Research Initiative (AFRI)			\$ 767,327.64	
		University of Florida	UFDSP00011147	4,345.34	
		University of Maryland	25742002	10,579.67	
		University of Maryland	Z552802	97,052.66	
		University of Maryland	Z5775002	2,106.36	
					881,411.67
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields				12,552.74

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)			79,123.83	-
10.328	National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	University of Florida	2015-70020-24397	1,132.79	-
10.329	Crop Protection and Pest Management Competitive Grants Program	Texas Agriculture Extension Services	06-S150638	\$ 99,519.60 11,242.92	-
10.351	Rural Business Development Grant			110,762.52	-
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers			147,053.99	-
10.500	Cooperative Extension Service			196,852.84	-
		Kansas State University	S15085	\$ 16,640,646.23	
		Kansas State University	S16076	9,126.04	
		Mississippi State University	012100.340743.01	3,945.20	
		The Pennsylvania State University	5140-UT-USDA-2628	15,884.71	
		University of Arkansas	47403	117.06	
		University of Arkansas	21664-04	3,052.74	
		University of Arkansas	21664-08	9,818.30	
		University of Arkansas	21664-11	4,787.86	
		University of Arkansas	21666-15	2,345.52	
		University of Arkansas	21666-16	664.84	
		University of Georgia	RE675-171/4944716	666.34	
		University of Minnesota	2014-41520-22191	15,642.64	
		University of Missouri	C00048589-4	71,040.76	
		University of Missouri	C00051968-4	9,005.19	
		University of Nebraska	26-6365-0001-803	12,293.95	
				2,388.14	
				16,801,425.52	195,290.87
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children			109,968,225.09	91,098,543.32
10.558	Child and Adult Care Food Program			73,179,084.51	72,759,191.62
10.560	State Administrative Expenses for Child Nutrition			7,427,234.66	769,979.33
10.572	WIC Farmers' Market Nutrition Program (FMNP)			70,994.46	58,465.00
10.575	Farm to School Grant Program	Murfreesboro City Schools	Unknown	4,984.00	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.576	Senior Farmers Market Nutrition Program			484,002.57	463,329.00
10.578	WIC Grants To States (WGS)			293,753.97	137.24
10.579	Child Nutrition Discretionary Grants Limited			400,891.33	400,891.33
10.582	Fresh Fruit and Vegetable Program			3,199,783.14	3,199,783.14
10.598	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants			842,483.09	-
10.614	Scientific Cooperation Exchange Program with China			46,541.95	-
10.652	Forestry Research			318,783.50	-
10.664	Cooperative Forestry Assistance			1,550,088.73	567,839.91
10.675	Urban and Community Forestry Program			292,990.11	60,999.73
10.676	Forest Legacy Program			59,990.89	-
10.678	Forest Stewardship Program			230,718.37	-
10.680	Forest Health Protection			620,966.17	35,998.48
10.769	Rural Business Enterprise Grants			20,776.07	-
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			16,651.89	-
10.861	Public Television Station Digital Transition Grant Program			509,638.13	-
10.902	Soil and Water Conservation			111,505.30	-
10.912	Environmental Quality Incentives Program	North Carolina State University	2012-1632-06	\$ 181,152.19 2,324.66	
				183,476.85	31,387.36
10.920	Grassland Reserve Program			20,833.72	-
10.950	Agricultural Statistics Reports			16,000.00	-
10.961	Scientific Cooperation and Research			10,761.55	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.U01	2014 Farm Bill-Producer Education 14-17		58-0510-4-059 N	15,300.67	-
10.U02	USDA FS Chemical Retention Alys-Taylor		16-JV-11111137-043	4,031.08	-
10.U03	USDA FS Management Tools Cankers-Taylor		15-CS-11330129-041	30,484.70	-
10.U04	USDA FS Silviculture 2016-Clatterbuck		SILVICULTURE 2016	128,550.00	-
10.U05	USDA FSA EXT Svcs Farm Bill 2014-Smith		58-0510-4-060-N	1,714.29	-
10.U06	USDA RD Dvlpt Opp for Rural TN-Holland		48-60-1636	14,908.15	-
10.U07	USDA RD Feasibility Study TN - Taylor		GRANT NO. 1	5,629.00	-
10.U08	USDA Rural Leadership for RBDG		R073509	1,926.00	-
10.U09	Community Outreach and Assistance Partnership Program	Kentucky State University	Unknown	999.00	-
10.U10	PSU AMS State Training 2016-Burney FCS	The Pennsylvania State University	Unknown	585.42	-
10.U11	PSU AMS State Training 2016-Donaldson	The Pennsylvania State University	Unknown	2,340.99	-
Subtotal Department of Agriculture				\$ 230,321,686.14	\$ 170,676,055.81
Department of Commerce					
11.302	Economic Development_Support for Planning Organizations			\$ 139,626.42	\$ -
11.303	Economic Development_Technical Assistance			121,672.79	-
11.549	State and Local Implementation Grant Program			732,263.85	-
11.611	Manufacturing Extension Partnership			2,452,924.82	-
Subtotal Department of Commerce				\$ 3,446,487.88	\$ -
Department of Defense					
12.002	Procurement Technical Assistance For Business Firms			\$ 278,333.57	\$ -
12.112	Payments to States in Lieu of Real Estate Taxes			855,811.30	855,811.30

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services			216,525.03	
12.300	Basic and Applied Scientific Research			207,159.65	158,012.17
12.401	National Guard Military Operations and Maintenance (O&M) Projects			28,345,520.45	-
12.630	Basic, Applied, and Advanced Research in Science and Engineering	Academy of Applied Sciences Academy of Applied Sciences	2015-2016 SYMPOSIUM W911NF-10-2-0076	\$ 17,965.37 8,151.75	
				26,117.12	-
12.903	GenCyber Grants Program			21,473.18	-
12.U01	Army Fort Campbell 2015-Griffy		W91248-15-P-0001	17,196.25	-
12.U02	Army Ft Campbell Family Adv 2015-Griffy		W91248-15-P-0001	7,037.65	-
12.U03	Army Ft Campbell Financial 2015-Griffy		W91248-15-P-0001	21,113.32	-
12.U04	Army Ft Campbell Mobilization '15-Griffy		W91248-15-P-0001	7,866.88	-
12.U05	Army Ft Campbell Soldier Rdns '15-Griffy		W91248-15-P-0001	9,591.90	-
12.U06	Defense Equal Opportunity Climate Survey	Defense Equal Opportunity Management Institute	FA2521-06-P-0292	951.00	-
Subtotal Department of Defense				\$ 30,014,697.30	\$ 1,013,823.47
Department of Housing and Urban Development					
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			\$ 50,511,801.86	\$ 49,636,870.93
14.231	Emergency Solutions Grant Program	City of Knoxville City of Knoxville City of Knoxville	BIENNIAL STUDY C-16-0026 ESG 14-15	\$ 3,941,440.08 4,988.92 14,973.96 8.68	
				3,961,411.64	3,795,856.20
14.239	Home Investment Partnerships Program	City of Johnson City	Unknown	\$ 6,293,646.97 10,000.00	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		City of Johnson City	Unknown	7,852.23	
				6,311,499.20	5,857,567.83
14.241	Housing Opportunities for Persons with AIDS			1,692,747.92	1,651,707.42
14.267	Continuum of Care Program			142,696.41	-
14.401	Fair Housing Assistance Program_State and Local			288,600.00	-
14.416	Education and Outreach Initiatives			5,007.91	-
14.896	Family Self-Sufficiency Program			252,818.24	-
14.905	Lead Hazard Reduction Demonstration Grant Program			(1,838.33)	-
Subtotal Department of Housing and Urban Development				\$ 63,164,744.85	\$ 60,942,002.38

Department of the Interior

15.252	Abandoned Mine Land Reclamation (AMLR)			\$ 2,580,614.18	\$ 501,535.08
15.615	Cooperative Endangered Species Conservation Fund			823,001.06	2,996.08
15.616	Clean Vessel Act			276,082.86	-
15.626	Enhanced Hunter Education and Safety			573,714.32	393,093.33
15.631	Partners for Fish and Wildlife			19,570.41	19,570.41
15.634	State Wildlife Grants			1,108,954.39	-
15.650	Research Grants (Generic)			10,729.34	-
15.656	Recovery Act Funds - Habitat Enhancement, Restoration and Improvement			1,355.54	-
15.669	Cooperative Landscape Conservation			44,151.93	-
15.670	Adaptive Science			106,720.54	-
15.808	U.S. Geological Survey_ Research and Data Collection			94,086.81	-
15.904	Historic Preservation Fund Grants-In-Aid			646,547.14	518,940.95

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
15.916	Outdoor Recreation_Acquisition, Development and Planning			528,345.05	-
15.939	National Heritage Area Federal Financial Assistance			326,771.23	3,000.00
15.U01	FWS 2015 Tennessee NWR Complex - Pelren		F15AC00277	7,836.58	-
15.U02	FWS 2015 TN NWR Complex Pelren MATCH		F15AC00277	(5,442.42)	-
Subtotal Department of the Interior				\$ 7,143,038.96	\$ 1,439,135.85

Department of Justice

16.017	Sexual Assault Services Formula Program			\$ 307,053.82	\$ -
16.111	Joint Law Enforcement Operations (JLEO)			16,712.59	-
16.523	Juvenile Accountability Block Grants			121,546.66	37,750.81
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus			40,437.94	-
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States			672,173.32	496,538.75
16.550	State Justice Statistics Program for Statistical Analysis Centers			57,751.90	-
16.554	National Criminal History Improvement Program (NCHIP)			179,532.73	-
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants			4,200.00	-
16.562	Criminal Justice Research and Development_Graduate Research Fellowships			12,030.90	-
16.575	Crime Victim Assistance			9,180,315.47	6,985,559.39
16.576	Crime Victim Compensation			3,622,000.00	-
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program			479,182.38	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
16.582	Crime Victim Assistance/Discretionary Grants			(251.48)	-
16.585	Drug Court Discretionary Grant Program			681,245.38	673,544.21
16.588	Violence Against Women Formula Grants			2,351,512.96	-
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program			333,717.20	-
16.593	Residential Substance Abuse Treatment for State Prisoners			172,983.78	-
16.603	Corrections_Technical Assistance/Clearinghouse			61,821.69	-
16.609	Project Safe Neighborhoods	Knoxville Police Department	C-15-0164	4,649.30	
16.610	Regional Information Sharing Systems			1,857,984.10	-
16.710	Public Safety Partnership and Community Policing Grants			388,241.55	-
16.726	Juvenile Mentoring Program	National 4-H Council National 4-H Council	2014-OJJDP-NMPV-542 MENTORING 2014-2015	\$ 122,447.03 107.65	
				122,554.68	-
16.727	Enforcing Underage Drinking Laws Program			39,016.55	36,871.03
16.730	Reduction and Prevention of Children's Exposure to Violence	Shelby County Government Shelby County Government	S008780 S009595	\$ (0.01) 82,256.99	
				82,256.98	-
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities			37,172.49	-
16.738	Edward Byrne Memorial Justice Assistance Grant Program	City of Memphis City of Memphis Knoxville Police Department Shelby County Public Defender	2013-DJ-BX-0333 2014-DJ-BX-0559 C-14-0089 S009132	\$ 3,829,147.85 14,404.27 18,832.83 599.56 92,034.09	
				3,955,018.60	2,099,417.62
16.741	DNA Backlog Reduction Program			2,555,546.15	98,336.51

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program			225,157.62	-
16.750	Support for Adam Walsh Act Implementation Grant Program			135,732.04	-
16.751	Edward Byrne Memorial Competitive Grant Program	New York Prosecutors Training Institute	2013-DB-BX-K005	44,040.14	-
16.813	NICS Act Record Improvement Program			31,558.68	-
16.922	Equitable Sharing Program			345,153.36	-
16.U01	Governor's Task Force on Marijuana Eradication		2015-117 2016-116	\$ 464,293.58 137,130.58	
				601,424.16	-
16.U02	Task Force OT		D-15-AT-1133 JTTF 0511 OCDETF SETNE0248 OCDETF SETNE0249 OCDETF SETNE0253 OCDETF SETNM0191 OCDETF SETNW0159 OCDETF SETNW0189 OCDETF SETNW0191 OCDETF SETNW0198 USSJOPS 315173292 USSJOPS 315644084 USSJOPS 316173292 USSJOPS 316644084	\$ 13,704.14 26,692.83 9,434.17 7,512.54 3,301.21 6,032.55 1,289.31 15,783.88 2,645.20 2,100.60 622.86 15,565.74 5,994.13 5,167.19	
				115,846.35	-
Subtotal Department of Justice				\$ 28,835,319.99	\$ 10,428,018.32
Department of Labor					
17.002	Labor Force Statistics			\$ 976,889.58	\$ -
17.005	Compensation and Working Conditions			118,475.81	-
17.225	Unemployment Insurance			281,092,038.61	683,211.77
17.235	Senior Community Service Employment Program			1,667,178.30	1,609,326.80

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
17.245	Trade Adjustment Assistance			2,086,855.93	-
17.260	WIA Dislocated Workers	East Tennessee Human Resource Agency	WIA-SC-TCAT Oneida	22,701.42	-
17.261	WIA/WIOA Pilots, Demonstrations, and Research Projects			111,995.47	-
17.267	Incentive Grants - WIA Section 503			121,326.26	115,135.14
17.268	H-1B Job Training Grants	Memphis Bioworks Foundation	HG-22604-12-0-A-47-SW	\$ 158,330.50	
		Memphis Bioworks Foundation	HG-22604-12-60-A-47	39,842.93	
		Memphis Bioworks Foundation	HG-26665-15-60-A-47	65,139.11	
				<u>98,829.15</u>	
				362,141.69	-
17.271	Work Opportunity Tax Credit Program (WOTC)			747,700.22	-
17.273	Temporary Labor Certification for Foreign Workers			242,261.19	-
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors			88,370.78	-
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training			11,020.90	-
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	Henry Ford Community College	PO#B0004798	\$ 7,464,466.36	
		Henry Ford Community College	SGADFAPY1108	108,909.08	
		Mid-South Community College	TC-26495-14-60-12-TCAT	283,620.05	
		Mid-South Community College	TC-26495-14-60-A-12	669,396.00	
				<u>273,289.37</u>	
				8,799,680.86	-
17.503	Occupational Safety and Health_State Program			3,491,434.82	-
17.504	Consultation Agreements			982,707.36	-
17.600	Mine Health and Safety Grants			128,608.81	-
17.720	Disability Employment Policy Development			<u>777,072.21</u>	-
Subtotal Department of Labor				<u>\$ 301,828,460.22</u>	<u>\$ 2,407,673.71</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of State					
19.009	Academic Exchange Programs - Undergraduate Programs	Family Health International	PO16002472	\$ 42,704.04	\$ -
19.033	Global Threat Reduction			1,240,234.84	163,627.32
19.040	Public Diplomacy Programs			5,150.88	-
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges			500,122.56	500,122.56
19.704	Counter Narcotics			95,690.05	95,690.05
Subtotal Department of State				\$ 1,883,902.37	\$ 759,439.93
Department of Transportation					
20.106	Airport Improvement Program			\$ 18,973,732.39	\$ 18,973,732.39
20.215	Highway Training and Education	Knox County Schools	14-584	\$ 2,138.54 154,501.67	-
20.218	Motor Carrier Safety Assistance			156,640.21	-
20.232	Commercial Driver's License Program Improvement Grant			5,179,929.17	-
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			477,605.58	-
20.509	Formula Grants for Rural Areas			1,017,909.70	1,017,909.70
20.514	Public Transportation Research, Technical Assistance, and Training			18,177,308.62	18,131,893.68
20.528	Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program			22,503.66	-
20.607	Alcohol Open Container Requirements			205,250.96	31,672.05
				13,525,954.70	5,641,871.36

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants			104,884.41	-
20.700	Pipeline Safety Program State Base Grant			839,380.13	-
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants			259,650.27	99,313.56
Subtotal Department of Transportation				\$ 58,940,749.80	\$ 43,896,392.74
Department of the Treasury					
21.U01	Equitable Sharing Program		Unknown	\$ 97,550.75	\$ -
21.U02	National Foreclosure Mitigation Counseling (NFMC)	Neighborhood Reinvestment Corporation	PL113-6X1350	1,617.12	-
Subtotal Department of the Treasury				\$ 99,167.87	\$ -
Appalachian Regional Commission					
23.001	Appalachian Regional Development (See individual Appalachian Programs)			\$ 89,054.93	\$ -
23.002	Appalachian Area Development			1,274,164.01	1,055,265.49
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			372,832.59	56,820.65
Subtotal Appalachian Regional Commission				\$ 1,736,051.53	\$ 1,112,086.14
Equal Employment Opportunity Commission					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts			\$ 174,400.00	\$ -
Subtotal Equal Employment Opportunity Commission				\$ 174,400.00	\$ -
General Services Administration					
39.003	Donation of Federal Surplus Personal Property (Noncash Award)			\$ 4,798,001.77	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
39.011	Election Reform Payments			435,337.52	-
Subtotal General Services Administration				\$ 5,233,339.29	\$ -
Library of Congress					
42.U01	Teaching with Primary Sources		GA08C0077	\$ 126,168.12	\$ -
Subtotal Library of Congress				\$ 126,168.12	\$ -
National Aeronautics and Space Administration					
43.001	Science	University of Toledo	NNX16AC54A	\$ 58,948.35	
		Vanderbilt University	21603-S13	12,609.19	
				<u>3,750.00</u>	
				\$ 75,307.54	\$ -
43.007	Space Operations			57,769.75	-
43.008	Education			\$ 219,169.56	
		Vanderbilt University	2810-018483	27,438.53	
		Vanderbilt University	2813-018493	71,054.80	
		Vanderbilt University	3799-019687	8,215.38	
		Vanderbilt University	NNH14ZHA003C	21,077.20	
		Vanderbilt University	NNX15AR73H	<u>7,698.00</u>	
				354,653.47	-
43.U01	Science, Engineering, Mathematics and Aerospace Academy (SEMAA)		NAS3-02123-STSU	10,681.17	-
Subtotal National Aeronautics and Space Administration				\$ 498,411.93	\$ -
National Endowment for the Arts					
45.024	Promotion of the Arts_Grants to Organizations and Individuals			\$ 22,249.79	\$ -
45.025	Promotion of the Arts_Partnership Agreements			<u>775,062.85</u>	<u>727,563.85</u>
Subtotal National Endowment for the Arts				\$ 797,312.64	\$ 727,563.85

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Endowment for the Humanities					
45.129	Promotion of the Humanities_Federal/State Partnership	Humanities Tennessee	MEMORIES OF A MASSACRE	\$ 4,307.00	\$ -
45.149	Promotion of the Humanities_Division of Preservation and Access			170,334.70	-
45.160	Promotion of the Humanities_Fellowships and Stipends			11,194.89	-
45.162	Promotion of the Humanities_Teaching and Learning Resources and Curriculum Development			56,740.33	-
45.163	Promotion of the Humanities_Professional Development			12,116.03	-
Subtotal National Endowment for the Humanities				\$ 254,692.95	\$ -
Institute of Museum and Library Services					
45.310	Grants to States			\$ 3,189,259.49	\$ 227,900.00
45.312	National Leadership Grants			5,730.75	-
45.313	Laura Bush 21st Century Librarian Program	Drexel University	219067-UTK	\$ 168,748.88 (749.21)	
				167,999.67	21,655.80
Subtotal Institute of Museum and Library Services				\$ 3,362,989.91	\$ 249,555.80
National Science Foundation					
47.041	Engineering Grants	University of North Carolina	5037373	\$ 6,699.64	\$ -
47.049	Mathematical and Physical Sciences	American Physical Society	PT-007-2015	9,464.29	-
47.070	Computer and Information Science and Engineering			129,262.29	-
47.076	Education and Human Resources	Indian River State College	RCNET CSCC-0004	\$ 70,647.40	
		Indian River State College	RCNET CSCC-0005	8,183.72	
		Macomb Community College	I1400593	52,660.74	
				6,256.35	
				137,748.21	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
47.082	Trans-NSF Recovery Act Reasearch Support			19,000.00	10,000.00
Subtotal National Science Foundation				\$ 302,174.43	\$ 10,000.00
Small Business Administration					
59.037	Small Business Development Centers			\$ 2,148,299.93	\$ -
Subtotal Small Business Administration				\$ 2,148,299.93	\$ -
Tennessee Valley Authority					
62.004	Tennessee Valley Region_Economic Development			\$ 12,723.55	\$ -
62.U01	Tennessee Valley Authority Emergency Preparedness		FY2015-2019 TVA AWARD	1,371,157.30	264,626.91
62.U02	TVA - Solar Farm 8500021516 - Patterson		8500021516	689,036.94	-
62.U03	TVA Diversity Alliance - Ridley		Unknown	8,323.47	-
62.U04	TVA Diversity Alliance- Ridley - FY15		Unknown	2,761.71	-
62.U05	TVA- MCClung Museum - Baumann		1564330	100,230.72	-
62.U06	TVA Tall Fescue Eradication-Harper		11234	8,367.52	-
Subtotal Tennessee Valley Authority				\$ 2,192,601.21	\$ 264,626.91
Department of Veterans Affairs					
64.005	Grants to States for Construction of State Home Facilities			\$ 66,773.36	\$ -
64.009	Veterans Medical Care Benefits			428,031.39	427,965.65
64.015	Veterans State Nursing Home Care			21,127,991.03	-
64.022	Veterans Home Based Primary Care			84,319.04	-
64.033	VA Supportive Services for Veteran Families Program	Volunteers of America	SSVF	\$ 1,700.74	
		Volunteers of America	Unknown	1,459.07	
				3,159.81	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
64.101	Burial Expenses Allowance for Veterans			1,171,277.00	-
64.124	All-Volunteer Force Educational Assistance			313,667.45	-
64.203	Veterans Cemetery Grants Program			5,093,482.00	-
Subtotal Department of Veterans Affairs				\$ 28,288,701.08	\$ 427,965.65
Environmental Protection Agency					
66.001	Air Pollution Control Program Support			\$ 3,072,912.42	\$ -
66.032	State Indoor Radon Grants			327,655.17	-
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act			347,336.88	-
66.040	State Clean Diesel Grant Program			35.00	-
66.419	Water Pollution Control State, Interstate, and Tribal Program Support			1,808,341.05	3,000.00
66.432	State Public Water System Supervision			184,285.36	-
66.433	State Underground Water Source Protection			58,316.88	-
66.454	Water Quality Management Planning	Southeast Tennessee Development District	Unknown	\$ 139,966.93 8,698.50	
				148,665.43	87,655.75
66.460	Nonpoint Source Implementation Grants			3,212,345.15	1,424,733.69
66.461	Regional Wetland Program Development Grants			112,120.67	-
66.466	Chesapeake Bay Program	Virginia Polytechnic Institute and State University	CB-96326201	12,388.09	-
66.475	Gulf of Mexico Program			3,624.34	395.90
66.481	Lake Champlain Basin Program	Auburn University	13-ACES-375474-UT	3,713.58	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
66.605	Performance Partnership Grants			2,592,266.91	-
66.608	Environmental Information Exchange Network Grant Program and Related Assistance			159,378.50	-
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements			151,577.21	-
66.707	TSCA Title IV State Lead Grants Certification of Lead- Based Paint Professionals			265,856.83	-
66.708	Pollution Prevention Grants Program			61,830.19	-
66.717	Source Reduction Assistance			3,867.20	-
66.801	Hazardous Waste Management State Program Support			2,187,810.20	-
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements			1,077,962.97	-
66.804	Underground Storage Tank Prevention, Detection and Compliance Program			404,893.28	-
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program			1,378,834.70	-
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements			132,972.52	-
66.817	State and Tribal Response Program Grants			192,315.89	-
66.U01	EPA Energy Conservation Training		T1604T36004	9,866.93	-
Subtotal Environmental Protection Agency				\$ 17,911,173.35	\$ 1,515,785.34
Nuclear Regulatory Commission					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 241,109.91	\$ -
Subtotal Nuclear Regulatory Commission				\$ 241,109.91	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Energy					
81.041	State Energy Program			\$ 1,027,114.84	\$ 19,385.80
81.042	Weatherization Assistance for Low-Income Persons			2,197,271.79	1,889,566.43
81.049	Office of Science Financial Assistance Program			52,315.96	-
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance			13,380.05	-
81.119	State Energy Program Special Projects			107,864.65	82,796.32
81.121	Nuclear Energy Research, Development and Demonstration			7,500.00	-
81.136	Long-Term Surveillance and Maintenance			3,419,603.78	77,409.92
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis			2,757,249.23	139,532.20
81.U01	Oak Ridge WMA Agreement		REORDOER-3-97-0702	214,785.05	-
81.U02	Argonne Natl Lab-Workshops-IESP-Dongarra	Argonne National Laboratory	9F-31202	10,508.64	-
81.U03	Battelle Memorial Inst PNNL217110 French	Battelle Memorial Institute	217110	51,733.76	-
81.U04	Nat'l 4-H Career Pathway Evln-Donaldson	National 4-H Council	CAREER PATHWAY	3,368.62	-
81.U05	Nat'l 4-H Career Pathway Evln-FCS	National 4-H Council	CAREER PATHWAY	2,085.40	-
Subtotal Department of Energy				\$ 9,864,781.77	\$ 2,208,690.67
Department of Education					
84.002	Adult Education - Basic Grants to States			\$ 12,841,991.38	\$ 8,426,373.82
84.010	Title I Grants to Local Educational Agencies			\$ 272,611,160.38	
		Hamilton County Department of Education	P46671	154,996.99	
				272,766,157.37	264,150,164.60

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.011	Migrant Education_State Grant Program			661,288.19	661,188.19
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth			332,060.16	2,076.55
84.022	Overseas Programs - Doctoral Dissertation Research Abroad			19,811.02	-
84.031	Higher Education_Institutional Aid			7,047,216.48	-
84.032	Federal Family Education Loans			122,451,827.55	-
84.048	Career and Technical Education -- Basic Grants to States			27,507,737.84	22,687,985.69
84.116	Fund for the Improvement of Postsecondary Education			8,527.86	-
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States			49,012,363.59	-
84.129	Rehabilitation Long-Term Training			354,389.20	-
84.144	Migrant Education_Coordination Program			179,648.52	179,641.55
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind			749,782.58	-
84.181	Special Education-Grants for Infants and Families			7,972,426.68	3,289,473.69
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National			2,776,055.64	2,352,065.89
84.191	Adult Education_National Leadership Activities			272,004.71	-
84.196	Education for Homeless Children and Youth			1,332,901.52	1,283,644.10
84.200	Graduate Assistance in Areas of National Need			396,586.73	-
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training			33,945.61	-
84.282	Charter Schools			310,905.82	235,805.15
84.287	Twenty-First Century Community Learning Centers			26,660,112.54	24,981,448.88

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.323	Special Education - State Personnel Development			154,016.92	166,591.89
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities			601,340.81	-
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	California State University, Northridge	F11-2963-3-UTK	263,449.00	-
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)			6,765.00	6,765.00
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs			5,304,587.04	1,993,321.52
84.335	Child Care Access Means Parents in School			567,908.72	-
84.350	Transition to Teaching	University of Louisiana at Monroe	P0011459	\$ 25.00 22,430.97	-
84.358	Rural Education			22,455.97	-
84.360	High School Graduation Initiative	National Writing Project Corporation	94-TN02-SEED2012	4,668,708.44	4,432,660.73
84.365	English Language Acquisition State Grants			1,546.19	-
84.366	Mathematics and Science Partnerships			5,766,170.24	5,038,672.02
		Hawkins County Schools	33103-02115	\$ 2,156,591.05	
		Hawkins County Schools	S366B150043	99,789.81	
		McNairy County Board of Education	Unknown	61,088.73	
		Murfreesboro City Schools	S366B150043	10,946.13	
				22,406.79	
				2,350,822.51	2,119,831.06
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	National Writing Project Corporation	05-TN03-SEED2012	\$ 39,601,865.93	
		National Writing Project Corporation	05-TN03-SEED2016-ILI	1,755.96	
		National Writing Project Corporation	94-TN02-SEED2012	8,828.24	
				29.79	
				39,612,479.92	38,052,420.47
84.369	Grants for State Assessments and Related Activities			4,662,320.00	-
84.372	Statewide Longitudinal Data Systems			89,711.47	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.374	Teacher and School Leader Incentive Grants (formerly the Teacher Incentive Fund)			6,740,080.75	6,296,439.53
84.377	School Improvement Grants			19,025,106.84	12,782,836.80
84.378	College Access Challenge Grant Program			1,708,043.62	153,506.53
84.382	Strengthening Minority-Serving Institutions			517,750.52	-
84.388	School Improvement Grants, Recovery Act			922.47	-
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act			7,442.93	(8,245.64)
84.396	State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act			284,003.66	-
84.407	Transition Programs for Students with Intellectual Disabilities into Higher Education			173,269.36	-
84.411	Investing in Innovation (i3) Fund	National Board for Professional Teaching Standards	U411P120508	\$ 2,709.01	
		National Writing Project Corporation	05-TN03-I32013	2,544.30	
		National Writing Project Corporation	05-TN03-I3DP2015	<u>86,684.16</u>	
				91,937.47	-
84.419	Preschool Development Grants			11,991,739.97	10,690,631.68
84.U01	Basic Participation Task Order Contract		ED-08-CO-0064	21,512.28	-
84.U02	NAEP State Coordinator/Basic Participation Contract		ED-03-CO-0091	122,945.66	-
84.U03	State Data Coordination Task Order Contract		ED-08-CO-0064	37,928.27	-
84.U04	National Writing Project	National Writing Project Corporation	94-TN02	(1,626.64)	-
84.U05	Tennessee SCORE Regional ED Sum Crawford	State Collaborative on Reforming Education	Unknown	120,082.52	-
Subtotal Department of Education				<u>\$ 638,601,162.90</u>	<u>\$ 409,975,299.70</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Archives and Records Administration					
89.003	National Historical Publications and Records Grants			\$ 33,473.62	\$ 25,902.74
Subtotal National Archives and Records Administration				\$ 33,473.62	\$ 25,902.74
Delta Regional Authority					
90.200	Delta Regional Development			\$ 92,999.48	\$ -
90.201	Delta Area Economic Development			188,714.73	-
Subtotal Delta Regional Authority				\$ 281,714.21	\$ -
U.S. Election Assistance Commission					
90.401	Help America Vote Act Requirements Payments			\$ 574,164.89	\$ 635,367.89
Subtotal U.S. Election Assistance Commission				\$ 574,164.89	\$ 635,367.89
Department of Health and Human Services					
93.041	Special Programs for the Aging_Title VII, Chapter 3_ Programs for Prevention of Elder Abuse, Neglect, and Exploitation			\$ 68,200.00	\$ 68,200.00
93.042	Special Programs for the Aging_Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals			309,600.00	309,600.00
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services			373,300.00	373,300.00
93.048	Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects			83,471.00	-
93.052	National Family Caregiver Support, Title III, Part E			2,793,100.00	2,793,100.00
93.069	Public Health Emergency Preparedness			10,490,668.39	3,551,710.09
93.070	Environmental Public Health and Emergency Response			223,262.91	68,763.30

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.071	Medicare Enrollment Assistance Program			508,020.63	502,953.21
93.072	Lifespan Respite Care Program			93,451.89	72,473.84
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements			983,064.21	101,220.14
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance			58,965.29	51,600.00
93.086	Healthy Marriage Promotion and Responsible Fatherhood Grants			243,251.20	243,251.20
93.087	Enhance Safety of Children Affected by Substance			997,601.68	938,501.98
93.090	Guardianship Assistance			5,715,770.58	-
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program			1,143,667.40	-
93.103	Food and Drug Administration_Research	Auburn University	15-AUFSI-360490-UM	\$ 1,945,791.95 31,392.13	1,977,184.08
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)			439,533.23	434,045.85
93.110	Maternal and Child Health Federal Consolidated Programs	Vanderbilt University	T73 MC00050	\$ 748,390.58 5,886.20	754,276.78
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs			1,079,345.17	738,678.41
93.121	Oral Diseases and Disorders Research			6,702.33	-
93.124	Nurse Anesthetist Traineeships			44,636.44	-
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices			237,824.79	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.136	Injury Prevention and Control Research and State and Community Based Programs			1,246,571.58	355,234.74
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	National Partnership for Environmental Technology Education	10532	\$ 29,177.67	
		National Partnership for Environmental Technology Education	PETE 2016	113,857.40	
		University of Cincinnati	2U45ES006184-24	317,188.14	
		University of Cincinnati	5U45ES006184-23	43,777.50	
				<u>504,000.71</u>	-
93.150	Projects for Assistance in Transition from Homelessness (PATH)			889,803.28	757,329.08
93.165	Grants to States for Loan Repayment Program			245,618.50	245,618.50
93.178	Nursing Workforce Diversity			372,634.60	-
93.217	Family Planning_Services			6,162,849.47	3,476,613.17
93.234	Traumatic Brain Injury State Demonstration Grant Program			276,437.25	272,278.47
93.235	Affordable Care Act (ACA) Abstinence Education Program			1,175,508.98	1,028,115.19
93.236	Grants to States to Support Oral Health Workforce Activities			79,396.12	26,587.35
93.240	State Capacity Building			276,807.98	-
93.241	State Rural Hospital Flexibility Program			381,074.38	338,083.69
93.243	Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	Meharry Medical College	130506RZ070-01	\$ 14,382,235.75 <u>23,742.43</u>	
				14,405,978.18	10,993,187.84
93.247	Advanced Nursing Education Grant Program			2,280,485.94	-
93.251	Universal Newborn Hearing Screening			229,828.49	226,162.35
93.268	Immunization Cooperative Agreements			4,367,572.34	1,084,752.06

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.268	Immunization Cooperative Agreements (Noncash Award)			75,769,225.00	-
93.270	Adult Viral Hepatitis Prevention and Control			127,309.09	-
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance			3,506,482.88	2,123,368.58
93.297	Teenage Pregnancy Prevention Program	Douglas-Cherokee Economic Authority	TEEN PREG YR 4	\$ 6,505.07	
		Douglas-Cherokee Economic Authority	Unknown	<u>38,351.91</u>	
				44,856.98	-
93.301	Small Rural Hospital Improvement Grant Program			228,968.90	230,257.57
93.305	National State Based Tobacco Control Programs			1,127,385.81	439,073.55
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program			145,572.56	2,240.99
93.317	Emerging Infections Programs			337,141.47	323,666.85
93.319	Outreach Programs to Reduce the Prevalence of Obesity in High Risk Rural Areas			958,253.51	831,559.13
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			1,472,781.22	-
93.324	State Health Insurance Assistance Program			1,096,904.95	857,171.10
93.336	Behavioral Risk Factor Surveillance System			188,702.69	-
93.358	Advanced Education Nursing Traineeships			265,628.52	-
93.359	Nurse Education, Practice Quality and Retention Grants			378,100.86	-
93.369	ACL Independent Living State Grants			463,497.59	-
93.464	ACL Assistive Technology			439,515.18	-
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program			9,527,677.77	8,750,828.41
93.507	PPHF National Public Health Improvement Initiative			19,557.66	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.513	Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative			115,668.00	-
93.516	Public Health Training Centers Program	Emory University	T278676	\$ 20,311.24	
		Emory University	T460731	44,123.72	
				64,434.96	-
93.521	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			1,824,610.77	400,801.49
93.526	Grants for Capitall Development in Health Centers			164,222.31	37,500.00
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds			510,474.70	82,266.96
93.550	Transitional Living for Homeless Youth	National Safe Place	90-CY6498-01-00	124,791.75	-
93.556	Promoting Safe and Stable Families			8,076,290.16	-
93.563	Child Support Enforcement			42,118,419.69	-
93.564	Child Support Enforcement Research			144,796.42	-
93.568	Low-Income Home Energy Assistance			43,676,128.00	43,290,512.70
93.569	Community Services Block Grant			\$ 13,444,100.51	
		Mid-Cumberland Community Action Agency	Z 15-49111	167.11	
		Mid-Cumberland Community Action Agency	Z 16-49111	3,899.99	
				13,448,167.61	12,969,404.15
93.586	State Court Improvement Program			602,612.90	-
93.590	Community-Based Child Abuse Prevention Grants			737,038.00	-
93.597	Grants to States for Access and Visitation Programs			168,614.83	-
93.599	Chafee Education and Training Vouchers Program			812,624.29	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.600	Head Start	Knoxville-Knox County Community Action Committee	HEAD START TEACHERS	\$ 2,742,411.30 8,939.94	
					694,838.80
93.617	Voting Access for Individuals with Disabilities_Grants to States			173,888.86	-
	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance			13,828,895.07	404,245.44
93.630	Developmental Disabilities Basic Support and Advocacy Grants			1,298,712.55	-
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service			571,523.55	-
93.643	Children's Justice Grants to States			200,258.33	-
93.645	Stephanie Tubbs Jones Child Welfare Services Program			3,347,229.92	-
93.648	Child Welfare Research Training or Demonstration			821,639.07	-
93.652	Adoption Opportunities	Harmony Family Center Spaulding for Children Adoption Service	90CO1116-01-00 90CO1122-01-00	\$ 64,176.37 3,109.05	
					67,285.42
93.658	Foster Care_Title IV-E			45,682,650.46	-
93.659	Adoption Assistance			47,214,918.79	-
93.667	Social Services Block Grant			27,041,785.53	3,775,182.20
93.669	Child Abuse and Neglect State Grants			495,999.49	-
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services			1,871,576.12	-
93.674	Chafee Foster Care Independence Program			2,314,493.58	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)			338,952.90	-
93.735	State Public Health Approaches for Ensuring Quitline Capacity - Funded in part by Prevention and Public Health Funds (PPHF)			411,115.95	9,368.00
93.745	PPHF: Health Care Surveillance/Health Statistics - Surveillance Program Announcement; Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund			2,258.13	-
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds			2,150,329.25	77,743.52
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program			252,143.57	9,789.94
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)			1,079,430.04	687,149.85
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)			2,099,603.39	1,548,111.98
93.764	PPHF- Cooperative Agreements to Implement the National Strategy for Suicide Prevention (Short Title: National Strategy Grants)			545,591.90	512,443.00
93.767	Children's Health Insurance Program			145,471,337.69	-
93.791	Money Follows the Person Rebalancing Demonstration			10,241,993.93	127,347.98
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).			355,048.87	-
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities			922,009.78	920,983.00
93.837	Cardiovascular Diseases Research			(4,993.87)	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research			7,516.85	-
93.859	Biomedical Research and Research Training			(218.31)	-
93.866	Aging Research			42,097.90	-
93.884	Grants for Primary Care Training and Enhancement			281,395.17	-
93.889	National Bioterrorism Hospital Preparedness Program	South Central Region Healthcare Coalition	GE164686	\$ 4,721,960.78 14,676.48	
				4,736,637.26	3,170,741.15
93.912	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	LeBonheur Community Health and Well-Being	AD60HR25761	47,609.35	-
93.913	Grants to States for Operation of Offices of Rural Health			198,749.74	42,056.74
93.917	HIV Care Formula Grants			15,245,906.58	(4,513,277.77)
93.940	HIV Prevention Activities_Health Department Based			6,531,115.06	4,181,778.02
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			1,009,262.94	219,643.83
93.945	Assistance Programs for Chronic Disease Prevention and Control			1,213,213.70	766,786.34
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			229,085.04	15,578.85
93.958	Block Grants for Community Mental Health Services			9,039,908.39	8,919,294.40
93.959	Block Grants for Prevention and Treatment of Substance Abuse			28,349,227.14	28,198,630.89
93.964	Prevention and Public Health Fund (PPHF) Public Health Traineeships			29,674.73	-
93.969	PPHF Geriatric Education Centers	Meharry Medical College	6UB4HP19055-05-02	\$ (2,176.68)	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		University of Kentucky Research Foundation	3048111909-15-069	(27.06)	
				(2,203.74)	-
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants			2,116,175.60	1,193,657.13
93.994	Maternal and Child Health Services Block Grant to the States			15,545,822.41	5,809,767.26
93.999	Test for Suppression Effects of Advanced Energy	University of Memphis Research Foundation	NAS-098-15-070	1,245.25	-
93.U01	Harmony Family Center FY15 Cunningham	Harmony Family Center	TRANSFORM PROG EVAL	35,668.53	-
Subtotal Department of Health and Human Services				\$ 666,410,841.93	\$ 157,723,572.04
Corporation for National and Community Service					
94.003	State Commissions			\$ 359,237.73	\$ -
94.006	AmeriCorps			3,577,667.28	-
94.007	Program Development and Innovation Grants			43,277.53	-
94.021	Volunteer Generation Fund			270,363.85	-
94.U01	Equal Justice Works Americorps McKanders	Equal Justice Works	FELLOWSHIP PROGRAM	18,232.50	-
Subtotal Corporation for National and Community Service				\$ 4,268,778.89	\$ -
Executive Office of the President					
95.001	High Intensity Drug Trafficking Areas Program			\$ 306,386.03	\$ -
Subtotal Executive Office of the President				\$ 306,386.03	\$ -
Department of Homeland Security					
97.005	State and Local Homeland Security National Training Program	University of Arkansas at Little Rock	18002-3	\$ 18,823.79	\$ -
97.012	Boating Safety Financial Assistance			938,814.00	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)			99,412.63	-
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Kentucky Emergency Management	EMAC KENTUCKY 2009	\$ 53,758,012.30	
		State of South Carolina	940-RR-4189	81,844.81	
		State of South Carolina	940-RR-4190	11,563.10	
		State of South Carolina	940-RR-4219	3,406.02	
				<u>19,423.57</u>	
				53,874,249.80	52,283,968.45
97.039	Hazard Mitigation Grant			9,898,024.50	9,603,146.00
97.041	National Dam Safety Program			90,763.00	-
97.042	Emergency Management Performance Grants			6,874,485.20	3,101,746.87
97.043	State Fire Training Systems Grants			16,958.09	-
97.044	Assistance to Firefighters Grant			44,278.44	-
97.045	Cooperating Technical Partners			134,488.48	-
97.047	Pre-Disaster Mitigation			310,863.64	266,940.71
97.067	Homeland Security Grant Program	Shelby County Government	HOMELAND SECURITY	\$ 3,776,483.29	
				<u>51,980.61</u>	
				3,828,463.90	2,928,526.33
97.068	Competitive Training Grant			(67.64)	-
97.089	Driver's License Security Grant Program			50,269.07	-
97.U01	Federal Equitable Sharing Program		Federal Equitable Sharing Program	22,339.51	-
97.U02	State and Local Overtime Program		Unknown	<u>4,290.73</u>	-
Subtotal Department of Homeland Security				<u>\$ 76,206,457.14</u>	<u>\$ 68,184,328.36</u>
Agency for International Development					
98.009	John Ogonowski Farmer-to-Farmer Program	Volunteers for Economic Growth Alliance	AID-OAA-A-13-00053	\$ 78,054.67	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
98.U01	Borlaug Higher Education for Agriculture Research and Development	Michigan State University	RC102095	72,178.09	-
Subtotal Agency for International Development				<u>\$ 150,232.76</u>	<u>\$ -</u>
State Justice Institute					
99.U01	Statewide General Sessions Data Repository RFP/Project Initiation Assistance		SJI-15-T-190	\$ 44,276.71	\$ -
Subtotal State Justice Institute				<u>\$ 44,276.71</u>	<u>\$ -</u>
Total Unclustered Programs				<u>\$ 2,185,694,244.11</u>	<u>\$ 934,623,287.30</u>
Research and Development Cluster					
Department of Agriculture					
Agricultural Marketing Service					
10.167	Transportation Services			\$ 77,133.96	\$ -
10.168	Farmers' Market and Local Food Promotion Program	Knoxville-Knox County Metropolitan Planning Commission	LFPP-2014	6,050.16	-
10.170	Specialty Crop Block Grant Program - Farm Bill	North Carolina State University	2012-2253-01	(22,340.66)	-
Subtotal Agricultural Marketing Service				<u>\$ 60,843.46</u>	<u>\$ -</u>
Agricultural Research Service					
10.001	Agricultural Research_Basic and Applied Research	Arkansas Children's Hospital	USDA 58-6251-3-004	\$ 1,607,938.16 6,263.75	
Subtotal Agricultural Research Service				<u>\$ 1,614,201.91</u>	<u>\$ -</u>
Animal and Plant Health Inspection Service					
10.025	Plant and Animal Disease, Pest Control, and Animal Care			\$ 213,998.42	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.028	Wildlife Services			7,899.75	-
Subtotal Animal and Plant Inspection Service				\$ 221,898.17	\$ -
Economic Research Service					
10.253	Consumer Data and Nutrition Research			\$ 3,746.67	\$ -
Subtotal Economic Research Service				\$ 3,746.67	\$ -
Foreign Agricultural Service					
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			\$ 63,773.28	\$ -
Subtotal Foreign Agricultural Service				\$ 63,773.28	\$ -
Forest Service					
10.652	Forestry Research			\$ 96,564.24	\$ -
10.664	Cooperative Forestry Assistance			\$ 2,309.82	
		Kansas State University	S14159	35,299.50	
		National Fish and Wildlife Foundation	42215	10,011.72	
		National Fish and Wildlife Foundation	1905.14.042215	271.36	
				47,892.40	-
10.675	Urban and Community Forestry Program			132,965.98	97,463.15
10.680	Forest Health Protection			255,686.75	-
Subtotal Forest Service				\$ 533,109.37	\$ 97,463.15
National Institute of Food and Agriculture					
10.200	Grants for Agricultural Research, Special Research Grants	Alabama Agricultural and Mechanical University	2014-38624-22535	\$ 23,183.63	\$ -
10.202	Cooperative Forestry Research			114,625.61	-
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University			4,077,250.12	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.206	Grants for Agricultural Research_Competitive Research Grants			(240.99)	-
10.207	Animal Health and Disease Research			28,564.80	-
10.215	Sustainable Agriculture Research and Education	University of Georgia University of Georgia	2013-38640-20856 RD309-125/3502098	\$ 79,886.19 3,693.31	
				83,579.50	-
10.216	1890 Institution Capacity Building Grants	Kentucky State University	Unknown	\$ 1,062,293.27 18,630.57	
				1,080,923.84	94,661.89
10.217	Higher Education - Institution Challenge Grants Program			8,155.37	-
10.219	Biotechnology Risk Assessment Research			339,974.13	269,055.72
10.303	Integrated Programs	North Carolina State University Virginia Polytechnic Institute and State University	2001-2893-01 545850-19121	\$ 349,548.24 12,555.42 11.55	
				362,115.21	205,334.36
10.307	Organic Agriculture Research and Extension Initiative	Rutgers, The State University of New Jersey	4828	\$ 395,078.07 5,884.80	
				400,962.87	380,535.14
10.309	Specialty Crop Research Initiative	Cornell University Texas Agriculture Extension Services Texas Agriculture Extension Services University of Arkansas University of Florida	613414-9392 06-S150656 06-S150656 UA AES 91111-02 UF 11284	\$ 744,238.92 45,826.52 68,026.54 26,792.20 17,157.91 11,925.10	
				913,967.19	571,549.67
10.310	Agriculture and Food Research Initiative (AFRI)	Iowa State University North Carolina State University The Ohio State University The Ohio State University The Pennsylvania State University University of Georgia University of Georgia	416-23-11A 2011-0494-22 60049624 60050076 4774-UTIA-USDA-9752 RC294-323/4943246 RC294-330/4945556	\$ 7,952,057.58 17,004.86 4,704.67 6.85 26,577.47 22,305.87 2,363.80 42,425.85	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		University of Illinois	2013-00998-01	3,590.27	
		University of Maine	UM-5878	70,005.29	
		Washington State University	115334 G002889	124,096.76	
				8,265,139.27	4,330,499.77
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields			1,128.10	-
10.320	Sun Grant Program			\$ 293,174.48	
		Auburn University	13-FWS-368030-UTK`	3,515.44	
		South Dakota State University	3TF640	579.41	
		South Dakota State University	3TF640 AMD 1	22,400.00	
		South Dakota State University	3TF640 AMD 2	53,034.77	
				372,704.10	280,873.77
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)			282,387.92	12,197.86
10.329	Crop Protection and Pest Management Competitive Grants Program	North Carolina State University	2015-0085-12	\$ 20,870.53	
		Purdue University	800007119-AG	18,065.01	
				38,935.54	20,870.53
10.330	Alfalfa and Forage Research Program			42,975.34	42,975.34
10.331	Food Insecurity Nutrition Incentive Grants Program	American Association of Retired Persons Foundation	2015-70018-23332	139,875.87	-
10.500	Cooperative Extension Service			46,125.64	46,113.86
Subtotal National Institute of Food and Agriculture				\$ 16,622,333.06	\$ 6,254,667.91
Natural Resources Conservation Service					
10.903	Soil Survey			\$ 53,384.58	\$ -
10.912	Environmental Quality Incentives Program			564,763.91	17,101.90
Subtotal Natural Resources Conservation Service				\$ 618,148.49	\$ 17,101.90

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Rural Business-Cooperative Service					
10.351	Rural Business Development Grant			\$ 51,207.57	\$ -
Subtotal Rural Business-Cooperative Service				\$ 51,207.57	\$ -
The Office of the Chief Economist					
10.290	Agricultural Market and Economic Research			\$ 22,093.78	\$ -
Subtotal The Office of the Chief Economist				\$ 22,093.78	\$ -
Other Programs					
10.RD	Monitoring Responses of Herpetofaunal Communities To Prescribed Burns		13-CR-11242302-040	\$ 14,018.60	\$ -
10.RD	USDA 2016-CS-11081000-018 McKinney		2016-CS-11081000-018	6,467.60	-
10.RD	USDA Forest Serv Land Between the Lakes Botany		15-PA-11086002-006	3,448.89	-
10.RD	USDA FS 14CS11080400010 Avian-Buehler		14CS11080400010	15,881.38	-
10.RD	USDA FS 14JV11330144059- Poudyal		14-JV-11330144-059	13,401.27	-
10.RD	USDA FS 14JV11330145111-Zobel		14-JV-11330145-111	9,606.02	-
10.RD	USDA FS AG4568C140036 SRS Support-Belli		AG-4568-C-14-0036	80,301.41	-
10.RD	USDA FS American Chestnut-Schlarbaum		14-JV-11242316-148	1,736.91	-
10.RD	USDA FS FPL Analysis Lumber - Young		16-JV-11111137-047	1,811.79	-
10.RD	USDA FS Genetic Specialist 14-Schlarbaum		14-CS-11083133-001	21,643.29	-
10.RD	USDA FS Hst Dstrbn Thsnd Cnkr-Hadziabdic		15-CA-11272139-050	62,171.23	-
10.RD	USDA FS Mgt & Ecological Processes-Belli		15-CR-11330134-007	28,754.15	-
10.RD	USDA FS Natural Disaster BioSAT-Young		15-CR-11330136-098	52,295.00	-
10.RD	USDA RD Feasibility Study TN - Poudyal		GRANT NO. 1	19,404.46	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.RD	USDA-EMSI Economic Impact & Inv		R073509	10,000.00	-
10.RD	USDA-EMSI Economic Impact & Inv MATCH		R073509	15,500.00	-
10.RD	IUP-RI Warbler Breeding Mgt-Buehler	Indiana University of Pennsylvania	1112-045UT	(1,927.51)	-
Subtotal Other Programs				<u>\$ 354,514.49</u>	<u>\$ -</u>
Subtotal Department of Agriculture				<u>\$ 20,165,870.25</u>	<u>\$ 6,369,232.96</u>
Department of Commerce					
Economic Development Administration					
11.030	Science and Research Park Development Grants			<u>\$ 30,200.00</u>	<u>\$ -</u>
Subtotal Economic Development Administration				<u>\$ 30,200.00</u>	<u>\$ -</u>
National Institute of Standards and Technology (NIST)					
11.609	Measurement and Engineering Research and Standards			<u>\$ 16,943.79</u>	<u>\$ -</u>
Subtotal National Institute of Standards and Technology (NIST)				<u>\$ 16,943.79</u>	<u>\$ -</u>
National Oceanic and Atmospheric Administration (NOAA)					
11.459	Weather and Air Quality Research			<u>\$ 113,112.67</u>	<u>\$ -</u>
11.467	Meteorologic and Hydrologic Modernization Development			<u>(17.33)</u>	<u>-</u>
Subtotal National Oceanic and Atmospheric Administration (NOAA)				<u>\$ 113,095.34</u>	<u>\$ -</u>
Other Programs					
11.463	Habitat Conservation			<u>\$ 469.09</u>	<u>\$ -</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
11.478	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program			116,556.64	116,556.64
Subtotal Other Programs				\$ 117,025.73	\$ 116,556.64
Subtotal Department of Commerce				\$ 277,264.86	\$ 116,556.64
Department of Defense					
Defense Threat Reduction Agency					
12.351	Scientific Research - Combating Weapons of Mass Destruction			\$ 522,515.86	\$ 307,971.30
Subtotal Defense Threat Reduction Agency				\$ 522,515.86	\$ 307,971.30
Department of the Navy, Office of the Chief of Naval Research					
12.300	Basic and Applied Scientific Research			\$ 3,991,832.46	
	American Lightweight Materials	0001		17,241.71	
	Manufacturing Innovation Institute				
	Stanford University	61031338-120164		164,801.94	
	University of Colorado	1548375		79,188.22	
	University of North Texas	GF2707-3		33,586.27	
	University of Texas at San Antonio	1000001169		4,896.75	
				\$ 4,291,547.35	\$ 1,474,784.72
Subtotal Department of the Navy, Office of the Chief of Naval Research				\$ 4,291,547.35	\$ 1,474,784.72
Office of the Secretary of Defense					
12.630	Basic, Applied, and Advanced Research in Science and Engineering			\$ 646,117.54	
	American Lightweight Materials	PO Number 0021		25,835.68	
	Manufacturing Innovation Institute				
	Battelle Memorial Institute	PO US001-0000504972 CO 3		53,027.64	
	Norfolk State University	FA8750-15-2-0120		120,736.53	
	Prairie View Agricultural and Mechanical University	FC10053 416270		(8,862.10)	
				\$ 836,855.29	\$ -
Subtotal Office of the Secretary of Defense				\$ 836,855.29	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
U.S. Army Medical Command					
12.420	Military Medical Research and Development			\$ 2,257,065.55	
		American Burn Association	W81XWH0920194	53,910.77	
		Children's Research Institute	W81XWH-12-1-0417	1,134.00	
		Denver Research Institute	MSRC FY13 026	1,703.79	
		National Neurovision Research Institute	NNSP-CL-0811-0059-UT	(15,499.84)	
		National Trauma Institute	Unknown	18,969.54	
		University of Arkansas	253279	119,162.19	
		University of Miami	Unknown	19,615.63	
		University of Pittsburgh	W81XWH-12-2-0023	116,719.59	
		University of Texas at San Antonio	W81XWH-13-2-0065	22,168.79	
				<u>\$ 2,594,950.01</u>	<u>\$ 1,432,216.85</u>
Subtotal U.S. Army Medical Command				<u>\$ 2,594,950.01</u>	<u>\$ 1,432,216.85</u>
Other Programs					
12.431	Basic Scientific Research			\$ 1,315,904.39	\$ 329,425.47
12.800	Air Force Defense Research Sciences Program			\$ 369,736.17	
		Iowa State University	421-21-03B	196,335.35	
		University of Texas at Arlington	26-0201-44-61	5,557.31	
		University of Texas at Arlington	DISTRIBUTED SPARSITY	26,110.54	
		University of Virginia	GG11578 146629	(6,100.31)	
		Virginia Polytechnic Institute and State University	450174-19121-02	234,463.56	
				<u>826,102.62</u>	-
12.901	Mathematical Sciences Grants Program			81,810.37	-
12.902	Information Security Grants			147,851.53	-
12.910	Research and Technology Development			1,228,383.39	1,228,383.39
12.RD	AEDC FA9101-15-D-0002-0001 BOMAR		FA9101-15-D-0002/001	39,636.89	-
12.RD	AF FA7014-10-D-0012-T10 Stewart		FA7014-10-D-0012-T10	69,608.33	-
12.RD	AF FA7014-10-D-0012-T11 Stewart		FA7014-10-D-0012-T11	65,682.75	-
12.RD	AF FA7014-10-D-0012-T12 Stewart		FA7014-10-D-0012 #12	251,897.96	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.RD	AF FA7014-10-D-0012-T13 Stewart		FA701410D0012 TO 13	193,423.13	-
12.RD	AF FA7014-10-D-0012-TO9 MOD 2 Stewart		FA7014-10-D-0012-TO9	6,217.33	-
12.RD	AF FA7014-10-D-0012-TO9 Stewart		FA7014-10-D-0012 T09	(1,182.56)	-
12.RD	AF FA9101-06-D-0001/0020 MOELLER		FA9101-06-D-0001/020	27,218.70	-
12.RD	AF FA9101-06-D-0001/0021 MOELLER		FA9101-06-D-00010021	(697.09)	-
12.RD	AF FA9101-15-D-0002/0002 VAKILI		FA9101-15-D-0002/002	41,458.38	-
12.RD	AF FA9101-15-D-0002/0003 SCHMISSEUR		FA9101-15-D-0002/003	367,473.08	367,473.08
12.RD	AF FA9101-15-D-0002/0004 MOELLER		FA9101-15-D-0002-004	2,092.99	-
12.RD	AF FA9101-15-D-0002/0005 DAVENPORT		FA9101-15-D-0002-005	3,857.04	-
12.RD	Air Force FA8601-16-D-0008 Stewart		FA8601-16-D-0008	169.77	-
12.RD	Air Force FA8650-13-C-2326 Frankel		FA8650-13-C-2326	74,997.65	-
12.RD	Air Force FA8650-15-C-5205 Babu		FA8650-15-C-5205	150,568.78	-
12.RD	Defenses and Countermeasures of Jamming Attacks in Wireless Mesh Networks		N00174-16-C-0015	55,015.40	-
12.RD	DLA-SPE300-13-G-0003-0002-TO#1 Sawhney		SPE300-13G-0003-0002	0.01	-
12.RD	DLA-SPE300-15-G-0001 Sawhney		SPE300-15-G-0001	8,152.19	-
12.RD	DOD IPA Stewart (Werner)		Unknown	29,413.13	-
12.RD	DOD IPA Stewart (Werner) 2016		Unknown	203,484.43	-
12.RD	Missile Defense HQ0147-12-C-6019 Abidi		HQ0147-12-C-6019	91,736.15	-
12.RD	Navy N62583-11-C-0521 Loeffler 49%		N62583-11-C-0521	46,870.85	-
12.RD	SERDP W912HQ11C0067 Bioremedial-Jardine		W912HQ-11-C-00067	171,612.61	171,612.61
12.RD	USACE W91237-15-P-0055 LPMS/BCM Bray		W91237-15-P-0055	77,218.22	-
12.RD	USACE W912HQ-13-C-0055 Loeffler		W912HQ-13-C-0055	323,235.67	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.RD	USACE W912HQ-13-C-0069 Parker		W912HQ-13-C-0069	196,351.29	196,351.29
12.RD	Advanced Distributed Engine Control	Ohio Aerospace Institute	FA8650-14-D-2410	21,148.00	8,515.00
12.RD	Testing and Analysis of Lithium-Ion Battery	University of Michigan	N65540-10-C-0003	59,174.80	-
12.RD	Research Services	Massachusetts Institute of Technology	PO 7000293007 CO 04	505,147.47	-
12.RD	PAL 3 On the Job Training	University of Southern California	52770172	163,398.36	-
12.RD	Southern Methodist Univ-AS107D-Williams	Southern Methodist University	GA00137-7500	30,298.38	-
12.RD	Southern Methodist Univ-AS107D-Williams	Southern Methodist University	GA00138-7500	5,735.07	-
12.RD	Tufts University IN Situ Remedl #2 Loeff	Tufts University	USAF68	(4,769.12)	-
12.RD	Vertical Lift 2013001 Phase II DeSmidt	Vertical Lift Consortium	2013001 P00009	119,792.15	119,792.15
12.RD	Vertical Lift 2014-B-21-T2.1-A26 DeSmidt	Vertical Lift Consortium	2014-B-21-T2.1-A26	2,839.24	-
12.RD	Vertical Lift 2015-332 T01 49% Desmidt	Vertical Lift Consortium	2015-332 TASK 01	52,919.81	-
12.RD	Riverside Research PO#00044 R. Abedi	Riverside Research Institute	44	2,990.55	-
12.RD	IQMRI_HR0011-16-C-0003 J. Schmisser	IQM Research Institute	HR0011-16-C-0003	53,942.60	-
12.RD	Sandia Natl Lab PO1445803 Andrew Yu	Sandia National Laboratory	1445803	96,328.52	-
12.RD	TSNRP Grant HU0001-15-1-TS08-N15-P01	TriService Nursing Research Group	HU0001101TS08-N15P01	80,081.20	80,081.20
12.RD	TSNRP Gr HU0001-10-1-TS04-N10-P01	TriService Nursing Research Group	HU0001101TS04-N10P01	129,425.83	129,425.83
Subtotal Other Programs				\$ 7,414,018.24	\$ 2,631,060.02
Subtotal Department of Defense				\$ 15,659,886.75	\$ 5,846,032.89
Central Intelligence Agency					
13.RD	CIA 2014-14063000005 Humble		2014-14063000005	\$ 105,754.51	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
13.RD	Discovering the Vulnerable Physical Routes in a Network		2013-13070300001	105,288.42	-
Subtotal Central Intelligence Agency				\$ 211,042.93	\$ -
Department of the Interior					
Bureau of Land Management					
15.232	Wildland Fire Research and Studies			\$ 62,698.02	\$ -
Subtotal Bureau of Land Management				\$ 62,698.02	\$ -
Bureau of Reclamation					
15.506	Water Desalination Research and Development			\$ (5,798.65)	\$ -
Subtotal Bureau of Reclamation				\$ (5,798.65)	\$ -
Fish and Wildlife Service					
15.608	Fish and Wildlife Management Assistance	Gulf States Marine Fisheries	FWS-800-037-2014-TNTECH	\$ 9,343.19	
		Gulf States Marine Fisheries	FWS-800-037-2015-TNTECH	10,802.39	
		Louisiana Department of Wildlife and Fisheries	200167052	9,235.23	
		Louisiana Department of Wildlife and Fisheries	2000091935	60,100.91	
		University of Nevada Reno	UNR-13-01	1,325.46	
				\$ 90,807.18	\$ -
15.615	Cooperative Endangered Species Conservation Fund			2,332.43	-
15.634	State Wildlife Grants	The Nature Conservancy	Subaward: 1041-0003	1,833.62	-
15.650	Research Grants (Generic)	Kentucky Department of Fish and Wildlife Resources	PON2 660 1400003034 1	19,078.56	-
15.655	Migratory Bird Monitoring, Assessment and Conservation			13,697.42	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
15.657	Endangered Species Conservation - Recovery Implementation Funds	Kentucky Department of Fish and Wildlife Resources	4243111130000D2	\$ 45,677.01	
		Kentucky Department of Fish and Wildlife Resources	F15AC00372	3,219.53	
				16,476.29	
					65,372.83
					-
15.660	Endangered Species - Candidate Conservation Action Funds				25,185.03
					-
15.664	Fish and Wildlife Coordination and Assistance	The Nature Conservancy	TNOU 030115-3854-01	\$ 214,229.64	
		Wildlife Management Institute	NALCC 2011-17	34,569.61	
					248,799.25
					-
Subtotal Fish and Wildlife Service				\$ 467,106.32	\$ -
National Park Service					
15.923	National Center for Preservation Technology and Training			\$ 0.01	\$ -
15.926	American Battlefield Protection			4,494.36	-
15.945	Cooperative Research and Training Programs - Resources of the National Park System			745,409.58	41,487.19
15.946	Cultural Resources Management			9,910.55	-
15.954	National Park Service Conservation, Protection, Outreach, and Education			22,502.08	-
Subtotal National Park Service				\$ 782,316.58	\$ 41,487.19
Office of Surface Mining					
15.255	Science and Technology Projects Related to Coal Mining and Reclamation			\$ 43,405.00	\$ -
Subtotal Office of Surface Mining				\$ 43,405.00	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
U.S. Geological Survey					
15.805	Assistance to State Water Resources Research Institutes			\$ 84,337.14	\$ -
15.807	Earthquake Hazards Program Assistance	Georgia Institute of Technology	RE726-G1	\$ 774,728.54 31.69	774,760.23 -
15.808	U.S. Geological Survey_ Research and Data Collection	University of Southern California University of Southern California University of Southern California	49859332 60864801 61400652	\$ 265,519.26 (6,595.52) 5,000.00 9,281.50	273,205.24 -
15.810	National Cooperative Geologic Mapping	Iowa State University	424-17-03	\$ 3,499.88 44,491.98	47,991.86 -
15.812	Cooperative Research Units			51,432.00	-
Subtotal U.S. Geological Survey				\$ 1,231,726.47	\$ -
Other Programs					
15.RD	NPS ELISA Assay Development-Gerhold		ELISA	\$ 2,005.23	\$ -
Subtotal Other Programs				\$ 2,005.23	\$ -
Subtotal Department of the Interior				\$ 2,583,458.97	\$ 41,487.19
Department of Justice					
Bureau of Justice Assistance					
16.609	Project Safe Neighborhoods	City of Memphis Police Department	32173	\$ 17,299.58	\$ -
Subtotal Bureau of Justice Assistance				\$ 17,299.58	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Institute of Justice					
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	Arizona State University	15-697	\$ 268,082.80	
		City of New York	CT181620151415376	66,572.59	
		Lincoln Memorial University	2013-DN-BX-K038-002	22,769.25	
		Lincoln Memorial University	LMU 004	33,836.55	
		Sam Houston State University	22092B	35,959.09	
		University of Colorado	1553431	69,450.71	
		University of Minnesota	A004374201	21,424.99	
				<u>53,500.09</u>	
				\$ 571,596.07	\$ -
Subtotal National Institute of Justice				<u>\$ 571,596.07</u>	<u>\$ -</u>
Office of Juvenile Justice and Delinquency Prevention					
16.543	Missing Children's Assistance	City of Knoxville	C-14-0202	\$ (504.84)	\$ -
Subtotal Office of Juvenile Justice and Delinquency Prevention				<u>\$ (504.84)</u>	<u>\$ -</u>
Subtotal Department of Justice				<u>\$ 588,390.81</u>	<u>\$ -</u>
Department of Labor					
Employment Training Administration					
17.268	H-1B Job Training Grants	Memphis BioWorks Foundation	HG-26665-15-60-A-47	\$ 30,932.21	\$ -
Subtotal Employment Training Administration				<u>\$ 30,932.21</u>	<u>\$ -</u>
Other Programs					
17.303	Wage and Hour Standards			\$ 1,983,659.58	\$ -
Subtotal Other Programs				<u>\$ 1,983,659.58</u>	<u>\$ -</u>
Subtotal Department of Labor				<u>\$ 2,014,591.79</u>	<u>\$ -</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of State					
Bureau of Educational and Cultural Affairs					
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges			\$ 677,689.28	\$ 677,689.28
Subtotal Bureau of Educational and Cultural Affairs				<u>\$ 677,689.28</u>	<u>\$ 677,689.28</u>
Other Programs					
19.033	Global Threat Reduction			\$ 424,922.01	\$ -
19.700	General Department of State Assistance	U.S. Civilian Research and Development Foundation	OISE-14-60159-0	8,725.50	-
Subtotal Other Programs				<u>\$ 433,647.51</u>	<u>\$ -</u>
Subtotal Department of State				<u>\$ 1,111,336.79</u>	<u>\$ 677,689.28</u>
Department of Transportation					
Federal Aviation Administration (FAA)					
20.109	Air Transportation Centers of Excellence			\$ 41,728.37	\$ -
Subtotal Federal Aviation Administration (FAA)				<u>\$ 41,728.37</u>	<u>\$ -</u>
Federal Highway Administration (FHWA)					
20.200	Highway Research and Development Program	National Academy of Sciences	NCHRP-183	<u>\$ 254,752.80</u> 6,283.03	
				\$ 261,035.83	\$ -
20.215	Highway Training and Education	Knox County Schools	14-584	53,735.28	-
Subtotal Federal Highway Administration (FHWA)				<u>\$ 314,771.11</u>	<u>\$ -</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Federal Transit Administration (FTA)					
20.514	Public Transportation Research, Technical Assistance, and Training			\$ (1.06)	\$ -
Subtotal Federal Transit Administration (FTA)				\$ (1.06)	\$ -
Office of the Secretary (OST) Administration Secretariate					
20.701	University Transportation Centers Program			\$ 2,028,419.57	
		Louisiana State University	83708	(48.14)	
		Old Dominion University Research Foundation	14-156-521702	7,064.43	
		University of Illinois	2012-02061-04 A069	77,209.69	
		University of Illinois	2012-02061-04 A0694	39,752.02	
		University of Illinois	2013-05178-05	78,762.73	
		University of Wisconsin-Madison	396K594	665,452.85	
		Vanderbilt University	2806-018489	3,529.49	
		Western Michigan University	DTRT13G-UTC60	103,832.94	
				\$ 3,003,975.58	\$ 1,790,630.37
20.761	Biobased Transportation Research			199,883.00	19,069.82
Subtotal Office of the Secretary (OST) Administration Secretariate				\$ 3,203,858.58	\$ 1,809,700.19
Other Programs					
20.RD	DOT FAA Altrnt Jet Fuel & Envrnt-Rials		AJFE	\$ 389.40	\$ -
20.RD	Iowa Dept of Transport - Papanicolaou	Iowa Department of Transportation	16635	2,965.30	-
20.RD	Washington St DOT- GCB 1930 Papanicolaou	State of Washington	GCB 1930	22,980.50	-
Subtotal Other Programs				\$ 26,335.20	\$ -
Subtotal Department of Transportation				\$ 3,586,692.20	\$ 1,809,700.19

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Appalachian Regional Commission					
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			\$ 12,563.59	\$ -
Subtotal Appalachian Regional Commission				<u>\$ 12,563.59</u>	<u>\$ -</u>
Office of Personnel Management					
27.011	Intergovernmental Personnel Act (IPA) Mobility Program			\$ 215,730.14	\$ -
Subtotal Office of Personnel Management				<u>\$ 215,730.14</u>	<u>\$ -</u>
National Aeronautics and Space Administration					
43.001	Science			\$ 651,704.31	
	Arizona State University	01-082		14,765.76	
	Arizona State University	10-254 MOD 7		96,868.05	
	Brown University	00000675		16,884.78	
	Johns Hopkins University	124810		17,087.78	
	Johns Hopkins University	125677		3,603.42	
	Search for Extraterrestrial Intelligence Institute	SC-3068		(201.43)	
	Search for Extraterrestrial Intelligence Institute	SC3132		18,913.21	
	Smithsonian Astrophysical Observatory	AR6-17009X		16,498.84	
	Smithsonian Astrophysical Observatory	G05-16009B		6,619.58	
	Smithsonian Astrophysical Observatory	G05-16013A		8,357.00	
	Smithsonian Astrophysical Observatory	GO3-14008X		1,776.49	
	University of Central Florida	66016031-5		14,721.04	
	University of Idaho	P0044080		28,323.46	
	Vanderbilt University	21603-S11		45,335.00	
	Vanderbilt University	21603-S12		44,733.63	
	Vanderbilt University	21603-S2		23,602.40	
	Vanderbilt University	3018-011929		237.12	
	Vanderbilt University	3801-019687		<u>2,762.51</u>	
				\$ 1,012,592.95	\$ 94,304.72
43.002	Aeronautics				
	University of California, Los Angeles	2090-S-JB694		\$ 88,517.66	
	University of Wyoming	1002956A-TENN		<u>9,749.28</u>	
				98,266.94	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
43.003	Exploration			52,796.34	-
43.007	Space Operations			162,517.76	-
43.008	Education	Vanderbilt University	2016-015735	\$ 123,104.45	
		Vanderbilt University	21603-S9	10,186.83	
		Vanderbilt University	3800-019687	1,920.24	
		Vanderbilt University	3806-019687	1,527.68	
		Vanderbilt University	3808-019687	660.00	
		Vanderbilt University	SUBCONTRACT #21603-S8 AMEND 8	19,623.84	
		Vanderbilt University	SUBCONTRACT #3797- 019687	1,527.20	
				158,550.24	-
43.009	Cross Agency Support			\$ 2,768.18	
		Colorado State University	G-6560-1	65,576.51	
				68,344.69	-
43.RD	JPL 1242851 MOERSCH		1242851	32,093.66	-
43.RD	NASA JPL 1451872 Moersch		1451872	154,835.21	-
43.RD	JPL-NASA 1534944 McSween		1534944	5,356.18	-
43.RD	NASA EPSCoR (Experimental Program to Stimulate Competitive Research) Subspace Segmentation and High Dimensional Data Analysis	Vanderbilt University	NNX12AI14A	14,472.11	-
43.RD	Pennsylvania State Univ 175840 DeSmidt	The Pennsylvania State University	5267-UT-NASA-A22C A1	14,999.00	-
43.RD	Solar B X Ray Telescope	Smithsonian Astrophysical Observatory	SV4-84001	7,950.17	-
43.RD	Tennessee Space Grant and Fellowship Program	Vanderbilt University	21603-S6	18,645.03	-
43.RD	Univ of New Hampshire 11-107-05 Townsend	University of New Hampshire	11-107	1,161.19	-
43.RD	Univ of New Hampshire 11-107-10 Townsend	University of New Hampshire	11-107	16,928.09	-
43.RD	Univ of Northern Iowa S564B Papanicolaou	University of Northern Iowa	S5645B	42,973.50	-
43.RD	University of Arizona PO # 30948 Emery	University of Arizona	30948	64,198.97	64,198.97
Subtotal National Aeronautics and Space Administration				\$ 1,926,682.03	\$ 158,503.69

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Endowment for the Humanities					
45.161	Promotion of the Humanities_Research			\$ 219,780.02	\$ 16,223.10
45.169	Promotion of the Humanities_Office of Digital Humanities	University of Minnesota	A004178401	20,161.08	-
Subtotal National Endowment for the Humanities				\$ 239,941.10	\$ 16,223.10
Institute of Museum and Library Services					
45.312	National Leadership Grants	Purdue University	4112-64367	\$ 30,030.05 3,602.53	\$ -
45.313	Laura Bush 21st Century Librarian Program			175,369.48	-
Subtotal Institute of Museum and Library Services				\$ 209,002.06	\$ -
National Science Foundation					
47.041	Engineering Grants	University of Arkansas	304026	\$ 8,900,954.45 40,946.54	
		University of North Carolina	5037373	58,448.45	
		University of Washington	UWSC7874 (PO763076)	45,689.09	
		West Virginia Research Corporation	15-461-UM	1,363.21	
				\$ 9,047,401.74	\$ 2,716,361.05
47.049	Mathematical and Physical Sciences	The Ohio State University	60046595	\$ 5,348,118.19 59,899.34	
		University of Louisville	ULRF 15-0672-01	26,375.06	
		Vanderbilt University	2710-014625	66,795.59	
		Vanderbilt University	DMR-1507505	4,955.09	
		Washington State University	118207 G003113	3,512.86	
				5,509,656.13	754,921.66
47.050	Geosciences	Montana State University	G151-15-W5033	\$ 1,277,080.09 16,934.70	
		University of Colorado	1000278842	15,405.89	
		University of Illinois	2013-04254-01 /AA713	83,902.51	
		University of Southern California	42525882	18,985.29	
				1,412,308.48	63,261.46

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
47.070	Computer and Information Science and Engineering	Asheville-Buncombe Technical Community College	1501535	\$ 5,155,262.25 7,515.87	
		Carnegie Mellon University	1122183-333033	97,669.37	
		University of Illinois	2009-02232-02	97,533.37	
		University of Illinois	2011-00318-04 AMEND4	2,809,453.64	
		University of Illinois	2012-04822-03	370,926.73	
		University of New Mexico	063014-87H2 AMEND#10	(2,381.77)	
		University of New Mexico	063045-87H2	451,023.25	
		University of Southern California	65744092	50,990.23	
		Washington State University	123507_G003407	7,242.00	
					9,045,234.94
47.074	Biological Sciences	Dartmouth College	R823	\$ 7,851,219.57 935.08	
		Iowa State University Foundation	420-40-49A	97,261.17	
		Portland State University	201REY307	40,567.32	
		The Pennsylvania State University	4373-UT-NSF-5974	(5,850.42)	
		University of California	S0184089	16,861.92	
		University of California, Santa Barbara	KK1321	4,490.32	
		University of Florida	UFDSP00010128	14,326.28	
		University of Georgia	RR167-808/S000658	18,309.04	
		University of Georgia	RR182-436/4945206	16,723.04	
					8,054,843.32
47.075	Social, Behavioral, and Economic Sciences	University of Colorado	1548373	\$ 217,659.12 196,289.21	
		University of Southern Mississippi	USM-GR05085-005-02	2,086.00	
					416,034.33
47.076	Education and Human Resources	Carleton College	28-1976-MIDDLE	\$ 7,439,821.13 15,067.05	
		Central State University	P0085626 /8460-003	6,300.00	
		Howard University	DUE-1255441	65,636.96	
		Kennesaw State University	150167-02	4,608.58	
		Madisonville Community College	DUE-1204975	9,572.33	
		National Center for Science and Civic Engagement	73299-1128962-3	165.00	
		National Girls Collabortative Project	CC2015-12	1,500.00	
		North Carolina Central University	P0069625	18,951.39	
		Rochester Institute of Technology	31587-01	13,973.42	
		University of Notre Dame	202002	41,842.09	
		University of Tulsa	DUE-0856482	25,986.26	
		University of Wisconsin-Madison	565K950	236,178.15	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		University of Wisconsin-Madison	DRL-0918409	26,226.43	
				7,905,828.79	1,590,386.68
47.078	Polar Programs			11,610.11	-
47.079	Office of International Science and Engineering			330,198.85	-
47.080	Office of Cyberinfrastructure			\$ 3,209,262.05	
		University of Illinois	2007-01077-12	(47,934.28)	
				3,161,327.77	2,204,123.83
47.081	Office of Experimental Program to Stimulate Competitive Research			2,853,799.55	2,377,961.38
47.082	Trans-NSF Recovery Act Research Support			33,470.97	-
47.083	Office of Integrative Activities	University of Southern California	72782937	3,938.40	-
47.RD	NSF VSEE Retirement E Serpersu		14MOR1299/14MOR1300	16,468.84	-
47.RD	IUCRC Federal Membership Rawn		IUCRC FEDERAL MEMBER	42,723.54	-
47.RD	CURRENT Membership Admin - Federal		MEMBERSHIP AGREEMENT	72,189.79	-
Subtotal National Science Foundation				\$ 47,917,035.55	\$ 13,136,625.59
Smithsonian Institution					
60.RD	Data Collection and Reporting-Colorado LASER Initiative		15-PO-620-000031687	\$ 12,466.06	\$ -
60.RD	CO LASER Y1 Data Collection and Evaluation		16-PO-620-0000344084	35,590.46	-
60.RD	BioGenomics Initiative		15-PO-0000323823	8,059.53	-
Subtotal Smithsonian Institution				\$ 56,116.05	\$ -
Tennessee Valley Authority					
62.RD	Tennessee Valley Authority		Unknown	\$ 5,000.00	\$ -
62.RD	TVA Reintro of Ruth's Aster-Hadziabdic		1733982	818.13	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
62.RD	TVA 673123 Murray		673123	12,280.36	-
62.RD	TVA PO #1205495 99998950 Murray		1205495 99998950	58,767.19	-
62.RD	TVA PO #1759405 Paddling Map 15 Carroll		1759405	60,508.53	-
62.RD	TVA PO #1768937 (Contract 7493) Angst		1768937 (7493)	10,817.56	-
62.RD	TVA PO #1768937 (Travel) Angst		1768937 (7493)	606.25	-
62.RD	TVA PO #1988714 Henson Branch-Horn		99998950 1988714	12,164.59	-
62.RD	TVA PO #1996321 (Contract 7493) Angst		1996321 (7493)	931.82	-
62.RD	TVA PO #1996321 (Travel) Angst		1996321 (7493)	132.50	-
62.RD	TVA PO #624673 Bray		624673	(10.49)	-
62.RD	TVA PO #703022-2 GIC due to GMD 14-Eltom		703022-2	26,121.41	-
62.RD	TVA PO #751482 7493 Hollenbach		751482 7493	(13.85)	-
62.RD	TVA PO #799459-2 7493 Hollenbach		799459-2 7493	3,075.70	-
62.RD	TVA PO #804832-1 99998950 Papanicolaou		804832-1 99998950	14,339.22	-
62.RD	TVA Propagation Vaccinium elliottii-Wadl		666420	5.04	-
62.RD	TVA Seed Prop of Lilium - Klingeman		4912-80291640	4,170.03	-
62.RD	TVA Visitor Impact on Reservoirs-AgEcon		766357	20,077.00	-
62.RD	TVA Visitor Impact on Reservoirs-Poudyal		766357	61,912.34	-
62.RD	TVA-Revision 1 Wastewater Mgt-Buchanan		84773	318.11	-
Subtotal Tennessee Valley Authority				\$ 292,021.44	\$ -
Department of Veterans Affairs					
64.022	Veterans Home Based Primary Care			\$ 21,033.79	\$ -
64.RD	Educational Assistance Annual Reporting Fees		ANNUAL REPORTING FEES	3,618.84	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
64.RD	MTSU-Systems Redesign Collaboration		VA249-15-P-1620	72,600.79	-
64.RD	VA Medical Center Agmt-Slominski		1PIBX001607-01VA	(2,430.51)	-
64.RD	VA Medical Center IPA Agreements		Unknown	(16.32)	-
Subtotal Department of Veterans Affairs				\$ 94,806.59	\$ -
Environmental Protection Agency					
Office of Air and Radiation					
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	Shelby County Health Department Shelby County Health Department Shelby County Health Department	CA1315008 S009784 95490112	\$ 50,202.19 99,875.47 5,806.65 47,075.46	-
Subtotal Office of Air and Radiation				\$ 202,959.77	\$ -
Office of Research and Development (ORD)					
66.516	P3 Award: National Student Design Competition for Sustainability			\$ 10,291.18	-
Subtotal Office of Research and Development (ORD)				\$ 10,291.18	\$ -
Office of Water					
66.461	Regional Wetland Program Development Grants			\$ 675.79	-
66.481	Lake Champlain Basin Program	Auburn University	13-ACES-375474-UT	3,370.41	-
Subtotal Office of Water				\$ 4,046.20	\$ -
Other Programs					
66.RD	EPA Energy Conservation Training		1404MG 4005	\$ 4,461.77	-
66.RD	EPA Energy Conservation Training		T1404TG4014	9,555.52	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
66.RD	Alaska-DEC(CleanupCalculator)-Dolislager	Alaska Department of Environmental Conservation	Unknown	3,577.74	-
66.RD	Alaska-DEC (ClnupCalc)Task3 Dolislager	Alaska Department of Environmental Conservation	Unknown	16,599.04	-
Subtotal Other Programs				\$ 34,194.07	\$ -
Subtotal Environmental Protection Agency				\$ 251,491.22	\$ -
Nuclear Regulatory Commission					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 204,059.15	\$ -
77.009	U.S. Nuclear Regulatory Commission Office of Research Financial Assistance Program			44,645.21	44,645.21
Subtotal Nuclear Regulatory Commission				\$ 248,704.36	\$ 44,645.21
Department of Energy					
81.049	Office of Science Financial Assistance Program			\$ 4,709,636.09	
		Georgia Institute of Technology	RD059-S1	65,045.05	
		Georgia Institute of Technology	RD537-S1	72,271.27	
		Louisiana State University	44159 2016-2018	21,173.59	
		Louisiana State University	44159-6	5,372.74	
		Oregon State University	F0760B-A	78,286.03	
		Purdue University	4105-65002	248,918.51	
		The Samuel Roberts Noble Foundation	2012-961-002	79,241.00	
		University Corporation for Atmospheric Research	Z12-93537	51,235.14	
		University of Notre Dame	202373	164,426.74	
		University of Notre Dame	202383UTK	72,082.13	
				\$ 5,567,688.29	\$ 864,485.14
81.057	University Coal Research			\$ 122,717.14	
		University of Illinois	2013-04279-0	27,820.70	
				150,537.84	-
81.079	Regional Biomass Energy Programs	South Dakota State University	3TA157	26,844.66	-

State of Tennessee

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.086	Conservation Research and Development	Fraunhofer USA, Incorporated	DE-EE0006715-UTK	\$ 189,045.29	
		Institute for Advanced Composites	IACMI	144,997.72	
		Manufacturing Innovation		94,811.31	
		Institute for Advanced Composites	PA16-0349-2.0	188,122.69	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-2.1	127,847.39	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-3.1	273,263.93	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-3.2	471,173.05	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-3.2-01	219,421.69	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-5.1-01	49,810.93	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-6.1	493,175.55	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-6.1-01	107,927.72	
		Manufacturing Innovation			
		Institute for Advanced Composites	PA16-0349-7.1-01	513,395.56	
		Manufacturing Innovation			
				2,872,992.83	1,654,059.30
81.087	Renewable Energy Research and Development			\$ 151,708.28	
		South Dakota State University	3TB157	(2,266.33)	
		Texas A&M University	06-S140675	215,661.32	
		University of California, Riverside	S000768	740.25	
				365,843.52	57,972.31
81.089	Fossil Energy Research and Development			\$ 213,550.66	
		University of North Dakota	UND10337	30,752.14	
				244,302.80	129,284.93
81.112	Stewardship Science Grant Program			\$ 1,124,642.79	
		Rutgers, The State University of	5110	834,265.17	
		New Jersey			
				1,958,907.96	-
81.113	Defense Nuclear Nonproliferation Research				
				431,758.37	191,605.82

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	Oak Ridge Associated Universities Oak Ridge Associated Universities	301101 301137	\$ 370,635.12 12,312.50 <u>7,437.50</u>	390,385.12 3,700.00
81.121	Nuclear Energy Research, Development and Demonstration	Lehigh University Oregon State University University of California, Irvine University of Michigan	543167-78001 G0150A-A 2014-3036 3002964739-A#3	\$ 1,405,090.22 109,480.01 85,113.71 92,034.50 <u>213,778.00</u>	1,905,496.44 445,475.68
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	University of Illinois	DE-OE0000780	68,093.15	-
81.123	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	Florida Agricultural and Mechanical University	DE-NA0002630	\$ 205,971.92 221,401.55 <u></u>	427,373.47 -
81.135	Advanced Research Projects Agency - Energy	Electric Power Research Institute	10004915	\$ 1,268,341.10 <u>52,739.50</u>	1,321,080.60 520,439.61
81.RD	Argonne 6F-30521 Truster	Argonne National Laboratory	6F-30521	80,770.84	-
81.RD	Argonne Natl Lab 3F-32544 Dongarra	Argonne National Laboratory	3F-32544	229,232.04	-
81.RD	Argonne Natl Lab 4F-30621 Greene	Argonne National Laboratory	4F-30621	43,750.28	-
81.RD	Argonne Natl Lab 4F-32041 Ruggles	Argonne National Laboratory	4F-32041	22,941.47	-
81.RD	B&W Y-12 LLC 4300087819 J. JOHNSON	Babcock & Wilcox Technical Services Y-12, Limited Liability Company	4300087819	63,140.73	-
81.RD	Battelle Mem Inst PNNL-256994-Jakowski	Battelle Memorial Institute	256994	11,585.13	-
81.RD	Battelle Memorial Inst 248092 Coble	Battelle Memorial Institute	248092	67,194.81	-
81.RD	Battelle Memorial Inst PNNL 218860 Coble	Battelle Memorial Institute	218860	18,210.08	-
81.RD	Battelle Memorial Inst PNNL 248914 Coble	Battelle Memorial Institute	248914	34,508.31	-
81.RD	Battelle Memoriial 248092 Coble (51%)	Battelle Memorial Institute	248092	42,720.07	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.RD	Battelle Memoriial 248914 Coble (51%)	Battelle Memorial Institute	248914	25,632.02	-
81.RD	CNS 4300095393 Leitnaker	Consolidated Nuclear Security, Limited Liability Company	4300095393	70,332.22	-
81.RD	CNS 4300096449 Leitnaker	Consolidated Nuclear Security, Limited Liability Company	4300096449	50,534.80	-
81.RD	CNS 4300096590 Sawhney	Consolidated Nuclear Security, Limited Liability Company	4300096590	44,448.06	-
81.RD	CNS 4300097689 TerMaath	Consolidated Nuclear Security, Limited Liability Company	4300097689	27,573.00	-
81.RD	CNS 4300101183 Allard	Consolidated Nuclear Security, Limited Liability Company	4300101183	6,345.86	-
81.RD	CNS, LLC 4300090406 Lukosi	Consolidated Nuclear Security, Limited Liability Company	4300090406	28,265.87	-
81.RD	CNS, LLC 4300093842 Heilbronn	Consolidated Nuclear Security, Limited Liability Company	4300093842	11,530.56	-
81.RD	CNS, LLC 4300094572 Sepaniak	Consolidated Nuclear Security, Limited Liability Company	4300094572	20,682.83	-
81.RD	CNS, LLC 4300095064 Gregor	Consolidated Nuclear Security, Limited Liability Company	4300095064	53,966.88	-
81.RD	CNS, LLC 4300095064 Gregor (51%)	Consolidated Nuclear Security, Limited Liability Company	4300095064	23,743.13	-
81.RD	CNS, LLC 4300095413 Sepaniak	Consolidated Nuclear Security, Limited Liability Company	4300095413	24,395.94	-
81.RD	CNS, LLC 4300095878 - Babu	Consolidated Nuclear Security, Limited Liability Company	4300095878	238,256.28	238,256.28
81.RD	CNS, LLC 4300097529 Cathey	Consolidated Nuclear Security, Limited Liability Company	4300097529	105,637.65	-
81.RD	CNS, LLC 4300098173 Sawhney	Consolidated Nuclear Security, Limited Liability Company	4300098173	30,245.47	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.RD	CNS, LLC 4300098680 TerMaath	Consolidated Nuclear Security, Limited Liability Company	4300098680	693.00	-
81.RD	CNS, LLC 4300099382 Lukosi	Consolidated Nuclear Security, Limited Liability Company	4300099382	52,775.44	-
81.RD	CNS, LLC 4300099762 Sepaniak	Consolidated Nuclear Security, Limited Liability Company	4300099762	18,480.01	-
81.RD	CNS, LLC 4300099953 Kuney	Consolidated Nuclear Security, Limited Liability Company	4300099953	13,071.84	-
81.RD	CNS, LLC 4300100155 Noon	Consolidated Nuclear Security, Limited Liability Company	4300100155	81,024.85	-
81.RD	CNS, LLC 4300100756 Choo	Consolidated Nuclear Security, Limited Liability Company	4300100756	21,080.19	-
81.RD	CNS, LLC 4300101264 Blache	Consolidated Nuclear Security, Limited Liability Company	4300101264	25,823.84	-
81.RD	CNS, LLC PanTex 0000050657 YU, Andrew	Consolidated Nuclear Security, Limited Liability Company	50657	101,584.61	-
81.RD	Consolidated Nuclear CNS ChiMES Sepaniak	Consolidated Nuclear Security, Limited Liability Company	4300094990	531.49	-
81.RD	Consolidated Nuclear Sec 4300094840 Jenk	Consolidated Nuclear Security, Limited Liability Company	4300094840	56,473.72	-
81.RD	Consolidated Nuclear Sec4300090921 Kuney	Consolidated Nuclear Security, Limited Liability Company	4300090921	2,780.87	-
81.RD	Consolidated Nuclear Security LLC Cathey	Consolidated Nuclear Security, Limited Liability Company	4300093005	49,370.85	-
81.RD	Consolidated Nuclear Security LLC- Liaw	Consolidated Nuclear Security, Limited Liability Company	4300093440	41,897.72	-
81.RD	Design and Benchmark Architecture Agnostics Data Parallel Kernels for Fundamental Primitives Used in Data Analysis Algorithms for Big Data Applications	UT-Battelle, Limited Liability Company	4000146136	12,650.51	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.RD	Development and Testing of a Supercapacitor Energy Storage System Model Through RTDS	Battelle, Limited Liability Company	157926	30,371.46	-
81.RD	Environmental Remediation of Radioactive Waste and Chemical Processing of Spent Nuclear Fuel	UT-Battelle, Limited Liability Company	4000101346 MOD 12	18,485.28	-
81.RD	Fermi Research Alliance 618326 Spanier	Fermi Research Alliance, Limited Liability Company	618326	(4,510.65)	-
81.RD	FERMI Research Alliance 626582 Spanier	Fermi Research Alliance, Limited Liability Company	626582	1,690.86	-
81.RD	High Resolution Flood Risk Assessment	UT-Battelle, Limited Liability Company	4000145954	7,155.95	-
81.RD	Lawrence Berkeley Nat Lab 7229788 Hazen	Lawrence Berkeley National Laboratory	7229788	96,891.46	-
81.RD	Lawrence Berkeley NatLab7229788(51)Hazen	Lawrence Berkeley National Laboratory	7229788	381,794.96	-
81.RD	LLNL B612792-Kamyshkov	Lawrence Livermore National Laboratory	B612792	2,036.82	-
81.RD	LLNL B614597 Tomov	Lawrence Livermore National Laboratory	B614597	103,047.93	-
81.RD	LLNL B618344 Kamyshkov	Lawrence Livermore National Laboratory	B618344	1,403.87	-
81.RD	Los Alamos National Lab 340780 Feigerle	Los Alamos National Laboratory	340780	18,517.08	-
81.RD	NC State Univ-Sub2010-1691-01 Weber Yrs2	North Carolina State University	2010-1691-01	(59.42)	-
81.RD	RAMP-UP Program Support	UT-Battelle, Limited Liability Company	4000145173	28,571.09	-
81.RD	Robust Network Algorithms	Battelle, Limited Liability Company	4000127414	(0.02)	-
81.RD	Signal Processing and Machine Learning Efforts by Developing and Optimizing Algorithms in Matlab	UT-Battelle, Limited Liability Company	4000140763 MOD 2	99,682.84	-
81.RD	Simulation and Analysis of the SLIMER (Scintillating Layer Imaging Microscope for Environmental Research) Detector	Los Alamos National Security, Limited Liability Company	257632-1 MOD 2	2,400.00	-
81.RD	Stonecipher Professor of Distinction Joint Faculty Agreement with ORNL	UT-Battelle, Limited Liability Company	4000102091 MOD 11	19,585.74	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.RD	UCOR MR-15-024138 Murray	URS CH2M Oak Ridge, Limited Liability Company	MR-15-024138	14,443.53	-
81.RD	UCOR SC-15-012909 Dolislager	URS CH2M Oak Ridge, Limited Liability Company	SC-15-012909/MR-14-0	22,228.33	-
81.RD	UCOR SC-15-012909 Dolislager (51%)	URS CH2M Oak Ridge, Limited Liability Company	SC-15-012909/MR14-0	6,134.96	-
81.RD	Univ of Michigan Sub # 3002412323 Wirth	University of Michigan	3002412323	46,602.18	-
81.RD	UT-Battelle	UT-Battelle, Limited Liability Company	B0199BTL	25,744,297.64	25,744,297.64
Subtotal Department of Energy				\$ 44,225,960.21	\$ 29,849,576.71

Department of Education

Institute of Education Sciences

84.305	Education Research, Development and Dissemination	Brown University	R305E150005	\$ 48,596.46		
		Georgia State University	SP00010952-03	442,671.75		
		University of Michigan	R305H140028	25,279.26		
		University of Pittsburgh	R305H140112	173,340.13		
		University of Wisconsin-Madison	480K303	69,656.02		
					\$ 759,543.62	\$ -
84.324	Research in Special Education	Salus University	UTK 88401 15-16	\$ 196,407.83		
				137,111.00		
					333,518.83	196,407.83
Subtotal Institute of Education Sciences				\$ 1,093,062.45	\$ 196,407.83	

Office of Elementary and Secondary Education

84.287	Twenty-First Century Community Learning Centers	Virginia Department of Education	780-86788-S287C130047	\$ 14,637.18		
		Virginia Department of Education	780-86788-S287C140047	76,232.25		
					\$ 90,869.43	\$ -
84.366	Mathematics and Science Partnerships	Bedford County	11-14-14 GG	\$ 45,449.96		
		Bedford County	Unknown	113,456.45		
					158,906.41	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	National Writing Project Corporation	08-TN04-SEED2014 AMD 1	11,189.72	-
Subtotal Office of Elementary and Secondary Education				\$ 260,965.56	\$ -
Office of Innovation and Improvement					
84.411	Investing in Innovation (i3) Fund	National Board for Professional Teaching Standards	ATLAS	\$ (23,252.27)	
		Smithsonian Institution	11-SUBC-440-0000220859	15,345.72	
				\$ (7,906.55)	\$ -
Subtotal Office of Innovation and Improvement				\$ (7,906.55)	\$ -
Office of Postsecondary Education					
84.116	Fund for the Improvement of Postsecondary Education	University of Minnesota	A004497004	\$ 74,194.54	\$ -
84.220	Centers for International Business Education			43,605.47	-
84.407	Transition Programs for Students with Intellectual Disabilities into Higher Education			214,188.79	-
Subtotal Office of Postsecondary Education				\$ 331,988.80	\$ -
Other Programs					
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	Battelle, Limited Liability Company	ARRA 366844	\$ (1,420.93)	\$ -
84.396	State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act			219,068.32	-
Subtotal Other Programs				\$ 217,647.39	\$ -
Subtotal Department of Education				\$ 1,895,757.65	\$ 196,407.83

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Archives and Records Administration					
89.003	National Historical Publications and Records Grants			\$ 150,265.87	\$ -
Subtotal National Archives and Records Administration				\$ 150,265.87	\$ -
Department of Health and Human Services					
Administration for Children and Families					
93.670	Child Abuse and Neglect Discretionary Activities	Community Alliance for the Homeless	90CA1792	\$ 98,449.39	\$ -
Subtotal Administration for Children and Families				\$ 98,449.39	\$ -
Administration for Community Living					
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	Knoxville-Knox County Community Action Committee	DHHS RND #3	\$ (9,737.86)	
		Knoxville-Knox County Community Action Committee	Unknown	(0.01)	
				\$ (9,737.87)	\$ -
Subtotal Administration for Community Living				\$ (9,737.87)	\$ -
Agency for Healthcare Research and Quality					
93.226	Research on Healthcare Costs, Quality and Outcomes			\$ 242,622.32	\$ 180,003.79
Subtotal Agency for Healthcare Research and Quality				\$ 242,622.32	\$ 180,003.79
Centers for Disease Control and Prevention					
93.136	Injury Prevention and Control Research and State and Community Based Programs			\$ 469,121.71	\$ 244,506.35
93.184	Disabilities Prevention	University of North Carolina	5100502	3,848.13	-
93.185	Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects			0.01	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.262	Occupational Safety and Health Program	Colorado State University Colorado State University University of Kentucky Research Foundation	G004521 G-0054-1 3048111844-15-057	\$ 13,680.65 62,508.69 (25.42)	
				76,163.92	-
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance	Hemophilia of Georgia, Incorporated Hemophilia of Georgia, Incorporated	5H30MC24046-03 5H30MC24046-04	(17.46) \$ 12,597.57	
				12,580.11	-
93.319	Outreach Programs to Reduce the Prevalence of Obesity in High Risk Rural Areas			59,818.23	-
Subtotal Centers for Disease Control and Prevention				\$ 621,532.11	\$ 244,506.35
Centers for Medicare and Medicaid Services					
93.610	Health Care Innovation Awards (HCIA)			\$ 274,779.30	\$ 274,779.30
93.611	Strong Start for Mothers and Newborns			228,302.05	-
Subtotal Centers for Medicare and Medicaid Services				\$ 503,081.35	\$ 274,779.30
Food and Drug Administration					
93.103	Food and Drug Administration_Research	Auburn University National Environmental Health Association	16-AUFSI-360490-UM FY2016	\$ 484,192.87 24,767.31 11,493.75	
				\$ 520,453.93	\$ 484,192.87
Subtotal Food and Drug Administration				\$ 520,453.93	\$ 484,192.87
Health Resources and Services Administration					
93.110	Maternal and Child Health Federal Consolidated Programs			\$ 13,215.64	\$ -
93.247	Advanced Nursing Education Grant Program			35,253.77	-
93.359	Nurse Education, Practice Quality and Retention Grants			421,949.90	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	University of South Carolina	PO#2000012574	6,399.38	-
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	The Research Foundation for the State University of New York	2002894170	\$ 26,982.85	
		The Research Foundation for the State University of New York	R967820	5,878.00	
				32,860.85	-
Subtotal Health Resources and Services Administration				\$ 509,679.54	\$ -
National Institutes of Health					
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research			\$ 645,120.55	\$ -
93.113	Environmental Health			1,054,536.98	139,000.24
93.121	Oral Diseases and Disorders Research	University of California	1350 G TB091	\$ 302,270.75 72,292.62	-
				374,563.37	-
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education	Duke University	15-NIH-1022	\$ 272,968.57 5,717.71	
		Louisiana State University	79218	55,007.72	
		Louisiana State University	ES 013648	201,406.45	
		University of Maryland	15348	8,207.89	
				543,308.34	-
93.172	Human Genome Research	European Molecular Biology Laboratory	HG003345	41,311.64	-
93.173	Research Related to Deafness and Communication Disorders	Duke University	12-NIH-1032	\$ 1,433,255.46 5,889.50	
		University of Iowa	Unknown	2,918.38	
				1,442,063.34	-
93.213	Research and Training in Complementary and Integrative Health	Massachusetts General Hospital	AT000613	\$ (7,198.03)	
		Texas Tech University	21F096-01	33,123.32	
				25,925.29	-
93.233	National Center on Sleep Disorders Research			862,322.23	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.242	Mental Health Research Grants	New York University University of North Carolina at Greensboro Vanderbilt University Vanderbilt University Washington University	12-01801 Subaward 20140094 21357-S1 VUMC 38103 WU-15-134	\$ 368,663.66 3,413.43 18,878.50 5.78 10,839.31 4,066.05	405,866.73
93.273	Alcohol Research Programs	The Jackson Laboratory The Jackson Laboratory The Research Foundation for the State University of New York	205423-0-SERV AA018776-04PO 202070 5 P50 AA 017823-07	\$ 3,231,610.56 27,855.82 2,167.15 157,585.89	1,091,168.50
93.279	Drug Abuse and Addiction Research Programs	Boston University Boston University Dartmouth College University of California, San Diego University of Chicago	4500001591 1 R21 DA 038738-01 UG1DA040309 SUB R847 DA037844 FP056206C	\$ 1,208,785.05 (60.02) 10,659.39 4,501.41 205,896.87 218,065.61	216,119.77
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	Northwestern University University of Nebraska	SP0009270-PROJ0007233 34-2005-2064-001	\$ 2,764,880.41 (2,174.56) (0.03)	1,667,914.39
93.307	Minority Health and Health Disparities Research	Meharry Medical College William Marsh Rice University	080807VMR156 S2 R01MD010362	\$ 6,287.92 28,598.37	-
93.310	Trans-NIH Research Support				-
93.350	National Center for Advancing Translational Sciences	MedStar Health Research Institute	Unknown		-
93.351	Research Infrastructure Programs				-
93.361	Nursing Research	University of Pittsburgh University of Rochester University of Rochester	0019358 (122630-3) NR014451 NR014451-416553G	\$ 187,046.53 76,384.01 44,731.01 77,482.32	91,779.56

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.389	National Center for Research Resources			140,119.95	140,119.95
93.393	Cancer Cause and Prevention Research			\$ 1,567,283.27	
		St. Jude Children's Research Hospital	4 R01 CA 157838-05	6,908.04	
		St. Jude Children's Research Hospital	CA-157838	6,675.46	
		University of Pittsburgh	0019106	(211.73)	
		University of Virginia	GB10145 149329	53,136.91	
		William Marsh Rice University	R22613	143,749.58	
				1,777,541.53	463,052.94
93.394	Cancer Detection and Diagnosis Research			\$ 280,983.35	
		The Miriam Hospital	710-9801	(39.22)	
		The Research Foundation for the State University of New York	72432-1127175-2	22,045.40	
				302,989.53	99,863.69
93.395	Cancer Treatment Research			\$ 1,053,178.98	
		National Childhood Cancer Foundation	98543-1033	2,243.72	
		Southwest Oncology Group	Unknown	(28,720.58)	
		St. Jude Children's Research Hospital	CA081457	38,890.00	
		Washington University School of Medicine	WU-15-322	1,911.00	
				1,067,503.12	326,189.06
93.396	Cancer Biology Research			\$ 280,539.43	
		University of Minnesota	PO04798801	12,154.70	
				292,694.13	-
93.397	Cancer Centers Support Grants			134,279.21	9,779.66
93.398	Cancer Research Manpower			203,298.17	-
93.701	Trans-NIH Recovery Act Research Support			(96,377.60)	-
93.837	Cardiovascular Diseases Research			\$ 5,758,184.07	
		Children's Hospital Research Foundation	131950	123,099.16	
		Temple University	254224-UTK	(49.74)	
		The Methodist Hospital Research Institute	15420003-0041	18,563.71	
		University of Pittsburgh	0041597 (125465-6)	31,178.64	
		University of Pittsburgh	R01 HL122144	42,500.82	
		University of Washington	HL077863	6,000.00	
		Wayne State University	5 R01 HL 111459-05	15,768.72	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Wayne State University	HL-109090	42,121.52	
					6,037,366.90
93.838	Lung Diseases Research			\$ 1,668,400.48	
		Seattle Children's Hospital	1U01 HL 114623-01	126.00	
		University of California, San Francisco	5 U01 HL 094338-05	343.54	
		University of California, San Francisco	6207SC	100.80	
		Vanderbilt University	HL109977-05	238,751.21	
		Vanderbilt University	VUMC 38680	1,919.07	
					1,909,641.10
					1,158,366.68
93.839	Blood Diseases and Resources Research				137,568.26
					-
93.846	Arthritis, Musculoskeletal and Skin Diseases Research			\$ 2,210,112.13	
		Children's Research Institute	1 P50 AR 060836	(2,346.41)	
		Children's Research Institute	1 R01 AR 062380	(643.82)	
					2,207,121.90
					73,795.89
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research			\$ 4,765,995.69	
		Case Western Reserve University	DK094157	132,311.44	
		Case Western Reserve University	DK104438	15,484.27	
		Case Western Reserve University	RES507528	66.80	
		Case Western Reserve University	RES508615	20,123.38	
		Case Western Reserve University	RES509266	(1,714.60)	
		Case Western Reserve University	RES509469	770.66	
		Children's Hospital Research Foundation	DK080834	2,977.59	
		Eastern Virginia Medical School	DK104166	2,559.21	
		The Miriam Hospital	710-9906	27,948.24	
		The Research Institute at Nationwide Children's Hospital	82050015	44,024.45	
		The Research Institute at Nationwide Children's Hospital	82107815	6,452.96	
		Tufts Medical Center	5008753-SERV	(18,250.01)	
		Tufts Medical Center	5008763-SERV	52,154.40	
		University of Alabama at Birmingham	5 R01 DK 082753-08	37,187.33	
		University of Alabama at Birmingham	DK-082753	34,125.00	
		University of California, Irvine	2014-3099	166,683.23	
		University of California, Irvine	DK 102163-02	24,416.22	
		University of Connecticut	METABOLIC SENSORS	6,264.61	
		University of Missouri, Kansas City	0056364-00043127	(25,548.41)	
		University of Missouri, Kansas City	0056364-00043157	25,720.16	
		University of Missouri, Kansas City	DK093592	375,860.07	
		University of Pennsylvania	565003	1,685.81	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		University of Pennsylvania	5 UH3 DK102384-04	8,406.66	
		University of South Carolina	R01-DK056746	17,151.40	
		University of South Carolina	Unknown	(0.01)	
				5,722,856.55	862,456.09
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Children's Hospital Research Foundation	107759	\$ 2,135,538.62	
		Emory University	S310099	11,578.65	
		Emory University	T62277	5,714.48	
		Massachusetts General Hospital	NS052592	(6,517.29)	
		Medical University of South Carolina	NS058728	(1,698.72)	
		University of Louisville Research Foundation	ULRF 11-0730-01	(2,718.62)	
		University of Pennsylvania	558624	253,808.59	
		University of Pittsburgh	5 U01 NS 081041-02	66,019.43	
		University of Pittsburgh	5 U01 NS 081041-03	0.01	
		University of Pittsburgh	NS081041	123.71	
				(1.30)	
				2,461,847.56	348,037.38
93.855	Allergy and Infectious Diseases Research	Brentwood Biomedical Research Institute	AI034431	\$ 4,434,619.04	
		Colorado State University	Unknown	174,446.99	
		Institute for Clinical Research, Incorporated	AI068641	2,012.65	
		Louisiana State University	SOD-16-136-006	4,889.92	
		St. Jude Children's Research Hospital	112021010-7602557	26,820.91	
		St. Jude Children's Research Hospital	5 R01 AI 111449-02	(4,456.18)	
		St. Jude Children's Research Hospital	5 R01 AI 111449-03	155,815.59	
		St. Jude Children's Research Hospital	AI090810	18,635.00	
		The J. David Gladstone Foundation	R01952-A	75,595.35	
		University of California, San Diego	4 UM1 AI 069536-10	51,258.26	
		University of California, San Diego	AI069536	20,784.58	
		University of Louisville	ULRF 15-0382	22,207.88	
		University of Louisville	ULRF 15-0658-01	60,718.87	
		University of New Mexico	3RX98	115,695.42	
		University of Oklahoma	2015-13	22,309.90	
				17,836.70	
				5,199,190.88	1,868,635.49
93.856	Microbiology and Infectious Diseases Research			170,530.40	-
93.859	Biomedical Research and Research Training	Carnegie Mellon University	5T36GM095335-05	\$ 5,389,247.85	
				22,379.69	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Memorial Sloan Kettering Cancer Center	BD517143	2,357.63	
		Memorial Sloan Kettering Cancer Center	BD517143A	13,191.39	
		North Carolina State University	2015-2097-02	25,897.52	
		North Carolina State University	2015-2097-02 AMEND 1	26,355.10	
		Rosalind Franklin University	212970UTHSC	56,024.37	
		The Jackson Laboratory	2 R01 GM 070683-09	43,356.00	
		The Jackson Laboratory	5 R01 GM 070683-10	8,826.07	
		University of Pittsburgh	0040632 (124394-4)	180,347.39	
				5,767,983.01	555,360.91
93.865	Child Health and Human Development Extramural Research			1,046,625.32	243,779.47
93.866	Aging Research			\$ 2,110,562.47	
		Minneapolis Medical Research Foundation	AG029824	21,711.14	
		University of California, Irvine	2014-3104	(737.28)	
		University of Michigan	1 R01 AG 047178-01	12,084.47	
		University of Pittsburgh	28882	9,730.71	
				2,153,351.51	815,441.89
93.867	Vision Research			\$ 2,468,121.53	
		Emory University	5 R01 EY 017841-07	42,963.50	
		University of Mississippi	15-03-031	122,619.84	
				2,633,704.87	944,940.21
93.879	Medical Library Assistance	University of Maryland	Unknown	2,312.28	-
Subtotal National Institutes of Health				\$ 53,279,609.18	\$ 11,888,726.11
Office of the Secretary					
93.500	Pregnancy Assistance Fund Program	University of South Carolina	PO#2000009793	\$ 8,530.31	\$ -
Subtotal Office of the Secretary.				\$ 8,530.31	\$ -
Substance Abuse and Mental Health Services Administration					
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	The Healing Center Ministries, Incorporated	100114-2	\$ (10,264.66)	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Buffalo Valley, Incorporated	1H79T1025630-01	\$ 402,507.72 77,950.45	
				480,458.17	-
Subtotal Substance Abuse and Mental Health Services Administration				\$ 470,193.51	\$ -
Other Programs					
93.848	Digestive Diseases and Nutrition Research			\$ 526,160.88	\$ -
93.935	Project Grants for Renovation or Construction at Tertiary Perinatal Facilities	Oregon Health and Science University	1002304_TN	18,203.92	-
93.RD	Emory Subcont HHSN275200800024C	Emory University	HHSN275200800024C	(123.70)	-
93.RD	Univ Alabama Sub HHSN268200900047C	University of Alabama at Birmingham	000336417-005	242,663.22	-
93.RD	USF TrialNet Sub HHSN267200800019C	University of South Florida	HHSN267200800019C	11,464.37	-
93.RD	Wake Forest Sub HHSN268200900040C	Wake Forest University	WFUHS 330181	37,183.09	-
93.RD	Wake Forest Sub HHSN268201100004C	Wake Forest University	WFUHS 30305	16,612.42	-
Subtotal Other Programs				\$ 852,164.20	\$ -
Subtotal Department of Health and Human Services				\$ 57,096,577.97	\$ 13,072,208.42
Department of Homeland Security					
97.005	State and Local Homeland Security National Training Program	Norwich University Applied Research Institutes	SA 2015-014	\$ 95,110.13	
		The Center for Rural Development	FY13-K00155-UT-I&Q	47,903.48	
		The Center for Rural Development	FY14-K00155-UT-EH	29,921.22	
		University of Texas	26-0800-562	23,302.77	
				\$ 196,237.60	\$ 77,824.70
97.047	Pre-Disaster Mitigation	Louisiana State University	96968	28,648.69	-
97.061	Centers for Homeland Security	Jackson State University	2008-ST-061-ND0002-06	(308.00)	-
97.062	Scientific Leadership Awards			484,963.32	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection			1,122,361.24	154,357.92
97.104	Homeland Security-related Science, Technology, Engineering and Mathematics (HS STEM) Career Development Program			68,748.69	-
Subtotal Department of Homeland Security				\$ 1,900,651.54	\$ 232,182.62
Agency for International Development					
98.001	USAID Foreign Assistance for Programs Overseas			\$ 10,355.55	
		The Pennsylvania State University	Unknown	20,038.39	
		University of Memphis Research Foundation	ACRE	56.26	
		University of Washington	UWSC8693 (PO: BPO9911)	2,519.53	
				\$ 32,969.73	\$ -
98.RD	Genetic Profiling of Sweet Sorghum Biofuel	National Academy of Sciences	ESP-A-00-05-00001-00	18,361.45	-
Subtotal Agency for International Development				\$ 51,331.18	\$ -
Total Research and Development Cluster				\$ 202,983,173.90	\$ 71,567,072.32
Student Financial Assistance Cluster					
Department of Education					
84.007	Federal Supplemental Educational Opportunity Grants			\$ 6,954,976.82	\$ -
84.033	Federal Work-Study Program			7,417,895.67	-
84.038	Federal Perkins Loan Program_Federal Capital Contributions			42,307,444.68	-
84.063	Federal Pell Grant Program			371,071,517.06	-
84.268	Federal Direct Student Loans			814,274,784.43	-
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)			567,268.63	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.408	Postsecondary Education Scholarships for Veteran's Dependents			13,365.14	-
Subtotal Department of Education				\$ 1,242,607,252.43	\$ -
Department of Health and Human Services					
93.264	Nurse Faculty Loan Program (NFLP)			\$ 1,411,406.94	\$ -
93.342	Health Professions Student Loans, Including Primary Care Loan/Loans for Disadvantaged Students			1,364,198.09	-
93.364	Nursing Student Loans			61,355.02	-
93.925	Scholarships for Health Professions Students from Disadvantaged Backgrounds			645,000.00	-
Subtotal Department of Health and Human Services				\$ 3,481,960.05	\$ -
Total Student Financial Assistance Cluster				\$ 1,246,089,212.48	\$ -
SNAP Cluster					
Department of Agriculture					
10.551	Supplemental Nutrition Assistance Program			\$ 1,722,383,278.20	\$ -
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			74,112,340.72	66,307.88
Subtotal Department of Agriculture				\$ 1,796,495,618.92	\$ 66,307.88
Total SNAP Cluster				\$ 1,796,495,618.92	\$ 66,307.88
Child Nutrition Cluster					
Department of Agriculture					
10.553	School Breakfast Program			\$ 112,454,385.11	\$ 112,245,436.37
10.555	National School Lunch Program			283,287,463.13	282,844,123.02

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.555	National School Lunch Program (Noncash Award)			24,641,846.98	24,641,846.98
10.556	Special Milk Program for Children			24,405.72	24,405.72
10.559	Summer Food Service Program for Children			9,746,866.93	9,354,174.21
Subtotal Department of Agriculture				\$ 430,154,967.87	\$ 429,109,986.30
Total Child Nutrition Cluster				\$ 430,154,967.87	\$ 429,109,986.30
Food Distribution Cluster					
Department of Agriculture					
10.565	Commodity Supplemental Food Program			\$ 1,021,959.05	\$ 971,079.10
10.565	Commodity Supplemental Food Program (Noncash Award)			2,981,574.00	-
10.568	Emergency Food Assistance Program (Administrative Costs)			2,038,721.69	1,973,986.45
10.569	Emergency Food Assistance Program (Food Commodities) (Noncash Award)			12,714,457.68	12,714,457.68
Subtotal Department of Agriculture				\$ 18,756,712.42	\$ 15,659,523.23
Total Food Distribution Cluster				\$ 18,756,712.42	\$ 15,659,523.23
Forest Service Schools and Roads Cluster					
Department of Agriculture					
10.665	Schools and Roads - Grants to States			\$ 992,660.79	\$ 992,660.79
Subtotal Department of Agriculture				\$ 992,660.79	\$ 992,660.79
Total Forest Service Schools and Roads Cluster				\$ 992,660.79	\$ 992,660.79

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Economic Development Cluster					
Department of Commerce					
11.307	Economic Adjustment Assistance			\$ 5,502.16	\$ -
Subtotal Department of Commerce				\$ 5,502.16	\$ -
Total Economic Development Cluster				\$ 5,502.16	\$ -
Section 8 Project-Based Cluster					
Department of Housing and Urban Development					
14.195	Section 8 Housing Assistance Payments Program			\$ 168,504,696.46	\$ -
Subtotal Department of Housing and Urban Development				\$ 168,504,696.46	\$ -
Total Section 8 Project-Based Cluster				\$ 168,504,696.46	\$ -
CDBG - Entitlement Grants Cluster					
Department of Housing and Urban Development					
14.218	Community Development Block Grants/Entitlement Grants	Metropolitan Development and Housing Agency Knox County	B-13-MC-47-0007 15-260	\$ 56,788.26 9,995.69	\$ -
Subtotal Department of Housing and Urban Development				\$ 66,783.95	\$ -
Total CDBG - Entitlement Grants Cluster				\$ 66,783.95	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster					
Department of Housing and Urban Development					
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)			\$ 5,860,867.07	\$ 5,649,100.55
Subtotal Department of Housing and Urban Development				\$ 5,860,867.07	\$ 5,649,100.55
Total CDBG - Disaster Recovery Grants - Pub L. No. 113-2 Cluster				\$ 5,860,867.07	\$ 5,649,100.55
Housing Voucher Cluster					
Department of Housing and Urban Development					
14.871	Section 8 Housing Choice Vouchers			\$ 34,719,410.28	\$ -
14.879	Mainstream Vouchers			248,124.00	-
Subtotal Department of Housing and Urban Development				\$ 34,967,534.28	\$ -
Total Housing Voucher Cluster				\$ 34,967,534.28	\$ -
Fish and Wildlife Cluster					
Department of the Interior					
15.605	Sport Fish Restoration			\$ 7,324,077.96	\$ -
15.611	Wildlife Restoration and Basic Hunter Education			\$ 19,034,314.72	
	Arkansas Game and Fish Commission	Subaward to F14AF01117		15,634.81	
	Commonwealth of Kentucky	PON2 660 150000984 3		13,558.30	
	Commonwealth of Kentucky	PON2 66015000009841		52,100.94	
	Commonwealth of Virginia	2014-14942		49,444.76	
	Florida Fish and Wildlife Conservation Commission	15116		106,507.31	
	Nebraska Game and Parks Commission	W-117-T-1		106,605.66	
	Oklahoma Department of Wildlife Conservation	F14AF00963 W-176-C-1		19,898.80	
	Pennsylvania Game Commission	NBWCI		63,879.56	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		South Carolina Department of Natural Resources	P24014202015	76,345.94	
		State of Delaware	280474	8,286.05	
		State of Georgia	GEORGIA NBWCI	33,769.31	
		State of Ohio	Unknown	19,930.25	
		Texas Parks and Wildlife Department	463245	46,146.11	
				<u>19,646,422.52</u>	-
	Subtotal Department of the Interior			<u>\$ 26,970,500.48</u>	<u>\$ -</u>
	Total Fish and Wildlife Cluster			<u>\$ 26,970,500.48</u>	<u>\$ -</u>
Employment Service Cluster					
Department of Labor					
17.207	Employment Service/Wagner-Peyser Funded Activities			\$ 8,790,481.45	\$ 205,572.03
17.801	Disabled Veterans' Outreach Program (DVOP)			1,942,034.83	-
17.804	Local Veterans' Employment Representative Program			<u>1,530,640.57</u>	<u>-</u>
	Subtotal Department of Labor			<u>\$ 12,263,156.85</u>	<u>\$ 205,572.03</u>
	Total Employment Service Cluster			<u>\$ 12,263,156.85</u>	<u>\$ 205,572.03</u>
WIA/WIOA Cluster					
Department of Labor					
17.258	WIA/WIOA Adult Program			\$ 15,226,782.36	\$ 12,089,046.75
17.259	WIA/WIOA Youth Activities			\$ 14,704,058.58	
		Alliance for Business and Training	LW01P151Youth16-12032	<u>45,051.87</u>	
				14,749,110.45	11,587,496.96

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
17.278	WIA/WIOA Dislocated Worker Formula Grants	Upper Cumberland Human Resource Agency	Workforce Investment Act-Local	\$ 19,335,006.86 1,000.00	
				19,336,006.86	14,898,711.75
Subtotal Department of Labor				\$ 49,311,899.67	\$ 38,575,255.46
Total WIA/WIOA Cluster				\$ 49,311,899.67	\$ 38,575,255.46
Highway Planning and Construction Cluster					
Department of Transportation					
20.205	Highway Planning and Construction	Vanderbilt University	KV #3822-S1	\$ 795,727,337.78 13,376.15	
				\$ 795,740,713.93	\$ 79,706,312.71
20.219	Recreational Trails Program			1,286,512.36	879,802.70
Subtotal Department of Transportation				\$ 797,027,226.29	\$ 80,586,115.41
Total Highway Planning and Construction Cluster				\$ 797,027,226.29	\$ 80,586,115.41
Federal Transit Cluster					
Department of Transportation					
20.500	Federal Transit_Capital Investment Grants			\$ 2,687,423.24	\$ 2,687,423.24
Subtotal Department of Transportation				\$ 2,687,423.24	\$ 2,687,423.24
Total Federal Transit Cluster				\$ 2,687,423.24	\$ 2,687,423.24
Transit Services Programs Cluster					
Department of Transportation					
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities			\$ 1,141,937.70	\$ 150,142.86
20.516	Job Access And Reverse Commute Program			611,470.51	611,470.51

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
20.521	New Freedom Program			316,390.71	316,143.00
Subtotal Department of Transportation				\$ 2,069,798.92	\$ 1,077,756.37
Total Transit Services Programs Cluster				\$ 2,069,798.92	\$ 1,077,756.37
Highway Safety Cluster					
Department of Transportation					
20.600	State and Community Highway Safety	Mississippi State University	NSPARC 008616	\$ 5,407,051.66 21,513.91	
				\$ 5,428,565.57	\$ 3,245,737.40
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I			197,597.93	-
20.612	Incentive Grant Program to Increase Motorcyclist Safety			81,032.36	-
20.616	National Priority Safety Programs			5,268,668.90	3,079,940.39
Subtotal Department of Transportation				\$ 10,975,864.76	\$ 6,325,677.79
Total Highway Safety Cluster				\$ 10,975,864.76	\$ 6,325,677.79
Clean Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.458	Capitalization Grants for Clean Water State Revolving Funds			\$ 51,008,124.68	-
Subtotal Environmental Protection Agency				\$ 51,008,124.68	\$ -
Total Clean Water State Revolving Fund Cluster				\$ 51,008,124.68	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Drinking Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.468	Capitalization Grants for Drinking Water State Revolving Funds			\$ 27,923,188.75	\$ -
Subtotal Environmental Protection Agency				\$ 27,923,188.75	\$ -
Total Drinking Water State Revolving Fund Cluster				\$ 27,923,188.75	\$ -
Special Education Cluster (IDEA)					
Department of Education					
84.027	Special Education_Grants to States			\$ 228,568,191.97	\$ 214,525,350.66
84.173	Special Education_Preschool Grants			6,400,779.43	5,949,628.79
Subtotal Department of Education				\$ 234,968,971.40	\$ 220,474,979.45
Total Special Education Cluster (IDEA)				\$ 234,968,971.40	\$ 220,474,979.45
TRIO Cluster					
Department of Education					
84.042	TRIO_Student Support Services			\$ 3,094,939.01	\$ -
84.044	TRIO_Talent Search			973,540.36	-
84.047	TRIO_Upward Bound			4,451,737.65	-
84.066	TRIO_Educational Opportunity Centers			1,358,896.34	-
84.217	TRIO_McNair Post-Baccalaureate Achievement			255,223.59	-
Subtotal Department of Education				\$ 10,134,336.95	\$ -
Total TRIO Cluster				\$ 10,134,336.95	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Aging Cluster					
Department of Health and Human Services					
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers			\$ 6,801,352.00	\$ 6,801,352.00
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services			11,729,915.51	10,694,302.00
93.053	Nutrition Services Incentive Program			1,581,100.00	1,581,100.00
Subtotal Department of Health and Human Services				\$ 20,112,367.51	\$ 19,076,754.00
Total Aging Cluster				\$ 20,112,367.51	\$ 19,076,754.00
Health Center Program Cluster					
Department of Health and Human Services					
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)			\$ 5,967,713.42	\$ 907,481.22
93.527	Grants for New and Expanded Services under the Health Center Program			471,813.19	179,557.50
Subtotal Department of Health and Human Services				\$ 6,439,526.61	\$ 1,087,038.72
Total Health Center Program Cluster				\$ 6,439,526.61	\$ 1,087,038.72
TANF Cluster					
Department of Health and Human Services					
93.558	Temporary Assistance for Needy Families			\$ 66,636,380.38	\$ -
Subtotal Department of Health and Human Services				\$ 66,636,380.38	\$ -
Total TANF Cluster				\$ 66,636,380.38	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
CCDF Cluster					
Department of Health and Human Services					
93.575	Child Care and Development Block Grant	Signal Centers, Incorporated	CCR FY 2015	\$ 4,991,388.52	
		Signal Centers, Incorporated	CC&R FY2016	32.67	
		Signal Centers, Incorporated	Unknown	506,225.76	
				<u>26,060.14</u>	
				\$ 5,523,707.09	\$ -
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			70,283,423.32	-
Subtotal Department of Health and Human Services				<u>\$ 75,807,130.41</u>	<u>\$ -</u>
Total CCDF Cluster				<u>\$ 75,807,130.41</u>	<u>\$ -</u>
Medicaid Cluster					
Department of Health and Human Services					
93.775	State Medicaid Fraud Control Units			\$ 3,530,081.46	\$ -
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			10,218,646.88	19.05
93.778	Medical Assistance Program	University Health System, Incorporated	GMEP	\$ 6,844,415,570.92	
				<u>32,234,220.12</u>	
				6,876,649,791.04	18,019,994.79
Subtotal Department of Health and Human Services				<u>\$ 6,890,398,519.38</u>	<u>\$ 18,020,013.84</u>
Total Medicaid Cluster				<u>\$ 6,890,398,519.38</u>	<u>\$ 18,020,013.84</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Disability Insurance/SSI Cluster					
Social Security Administration					
96.001	Social Security_Disability Insurance			\$ 54,717,539.33	\$ -
Subtotal Social Security Administration				\$ 54,717,539.33	\$ -
Total Disability Insurance/SSI Cluster				\$ 54,717,539.33	\$ -
Grand Total Federal Assistance				<u>\$ 14,430,023,930.02</u>	<u>\$ 1,845,784,524.68</u>

The accompanying notes are an integral part of this schedule.

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2016 was conducted in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (contained in Title 2 of the U.S. Code of Federal Regulations Part 200) (Uniform Guidance), which requires a disclosure of the financial activities of all federally funded programs. To comply with the Uniform Guidance, 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.

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. INDIRECT COST RATE

Under the Uniform Guidance, State departments, agencies, and institutions may elect to charge a de minimis cost rate of 10% of modified total direct costs which may be used indefinitely. No State departments, agencies, and institutions within the State reporting entity have elected to use the 10% de minimis cost rate.

NOTE 4. 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 \$247,684,464.13 and \$33,407,574.48, respectively.

NOTE 5. 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.

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016
(continued)

Loan balances outstanding at year-end:

<u>Program</u>	<u>CFDA #</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program_Federal Capital Contributions	84.038	\$42,307,444.68
Nurse Faculty Loan Program (NFLP)	93.264	\$1,170,818.94
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	\$1,364,198.09
Nursing Student Loans	93.364	\$61,355.02

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.

As of June 30, 2016, the Federal Family Education Loans are no longer insured by the Tennessee Student Assistance Corporation (TSAC), a component unit.