

SINGLE AUDIT REPORT

— DIVISION OF STATE AUDIT —

For the Year Ended June 30, 2017



Justin P. Wilson, Comptroller





JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

March 27, 2018

The Honorable Bill Haslam, Governor
Members of the General Assembly

Ladies and Gentlemen:

We are pleased to submit the thirty-fourth *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2017. 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 \$14.1 billion. We noted instances of noncompliance that resulted in qualified opinions on compliance for 2 of the state's 18 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, 2017, 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 no material weaknesses in internal control. We noted no instances of noncompliance that we considered to be material to the state's basic financial statements.

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".

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

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2017**

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Selected Statistical Data

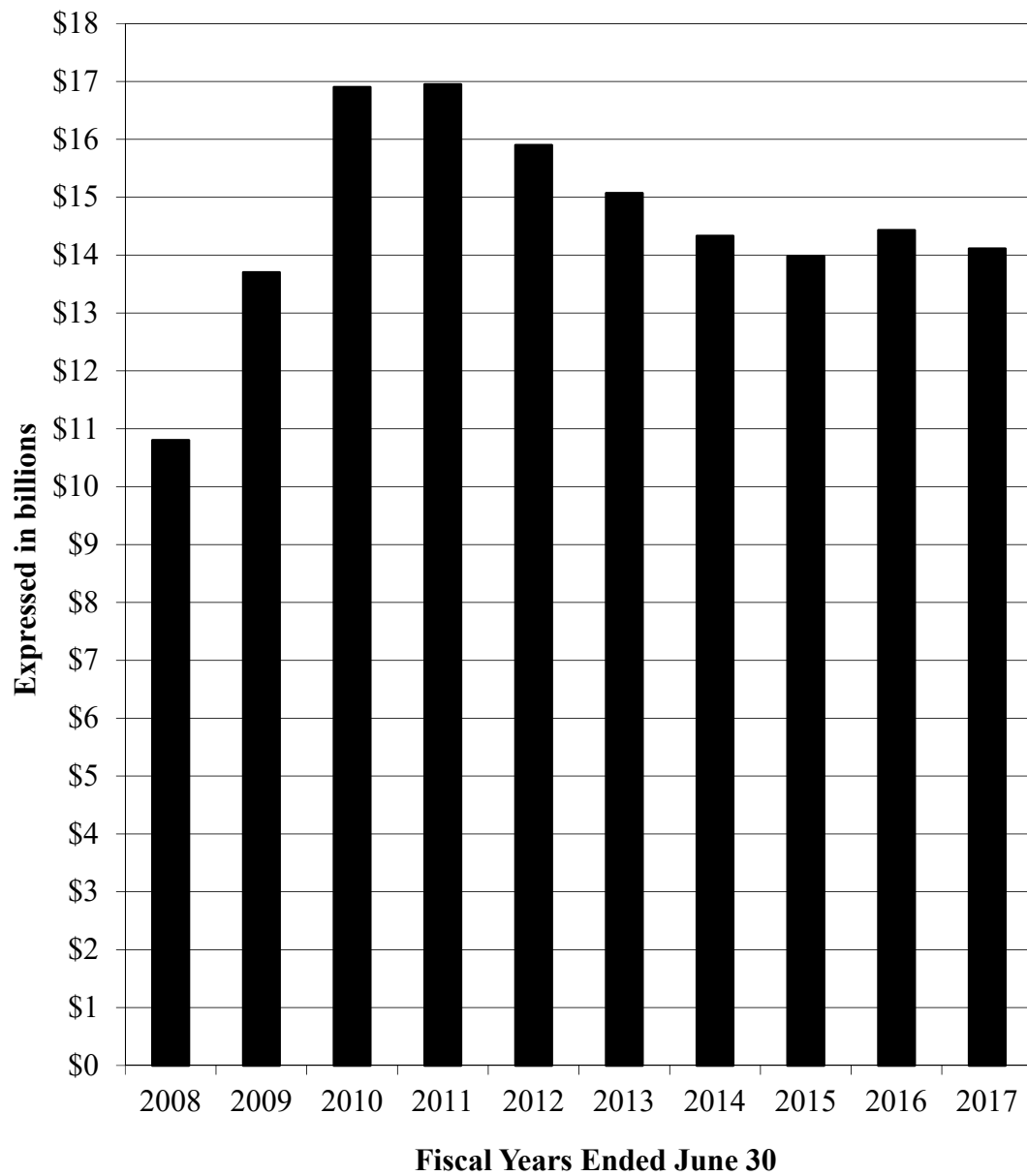
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

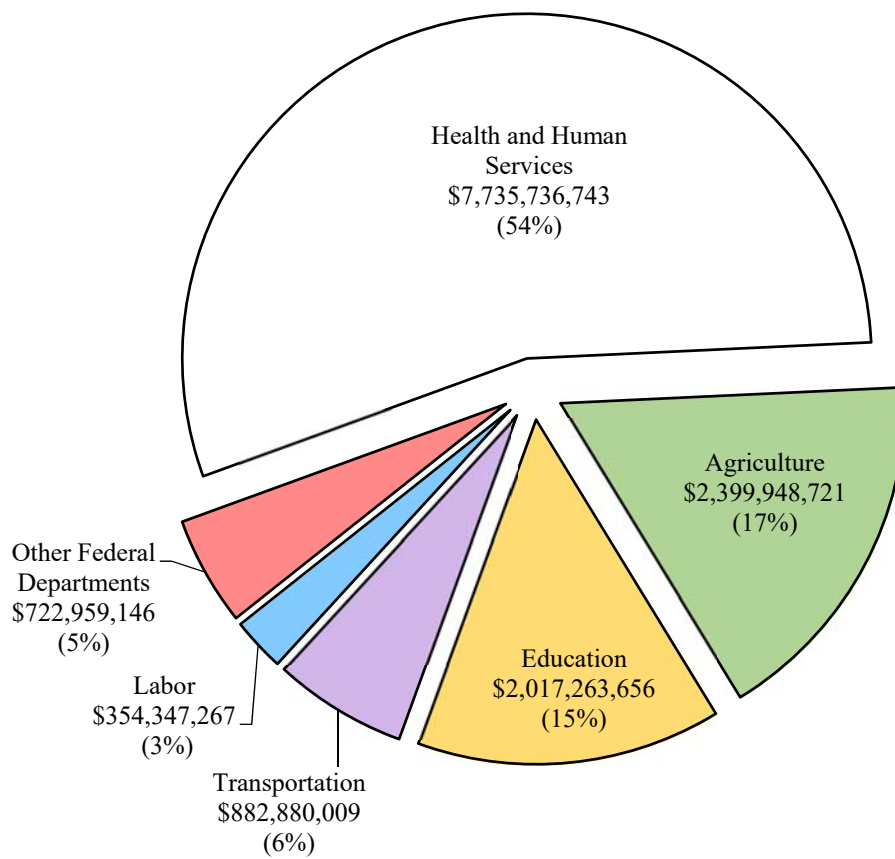
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

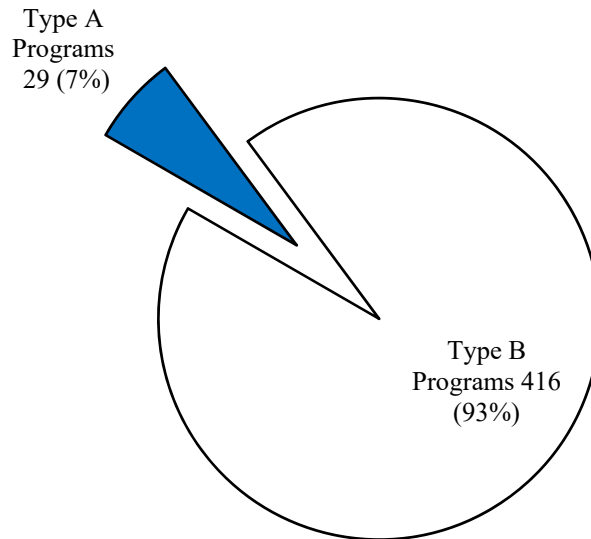
Total Federal Expenditures - Ten-Year Summary



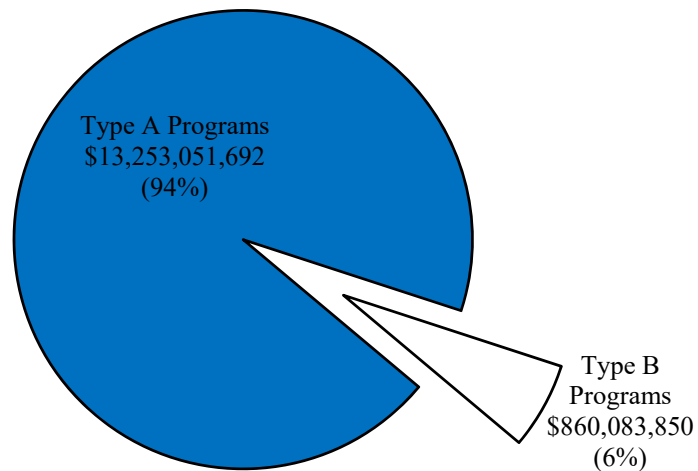
Expenditures by Awarding Agency
July 1, 2016, through June 30, 2017



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, 2017, 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



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

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

Ladies and Gentlemen:

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, 2017, 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, 2017. 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

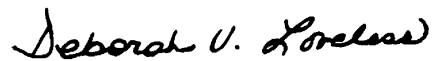
material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
Division of State Audit
December 21, 2017



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

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

Ladies and Gentlemen:

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, 2017. 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, *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 qualified and unmodified opinions on compliance for major federal programs. 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 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)
2017-018	10.558	Child and Adult Care Food Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Subrecipient Monitoring
2017-019	10.558	Child and Adult Care Food Program	Eligibility
2017-033	-	Child Care and Development Fund Cluster	Activities Allowed or Unallowed
2017-034	-	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 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, 2017.

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, 2017.

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 2017-001, 2017-005 through 2017-007, 2017-010 through 2017-016, 2017-020 through 2017-032, 2017-035 through 2017-054, and 2017-057 through 2017-063. 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 2017-002, 2017-010, 2017-011, 2017-016 through 2017-019, 2017-029, 2017-032 through 2017-036, 2017-044, 2017-049, 2017-050, and 2017-064 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 2017-001, 2017-003 through 2017-005, 2017-008 through 2017-015, 2017-017, 2017-020 through 2017-032, 2017-034, 2017-035, 2017-037 through 2017-048, 2017-051 through 2017-054, and 2017-056 through 2017-063 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, 2017, 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, 2017, 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.



Deborah V. Loveless, CPA, Director
Division of State Audit
March 23, 2018

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, 2017

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.
- No significant deficiencies in internal control over financial reporting were reported.
- 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 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, 2017

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
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.377	School Improvement Grants
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.767	Children’s Health Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
-	Supplemental Nutrition Assistance Program (SNAP) Cluster
-	Child Nutrition Cluster
-	Housing Voucher Cluster
-	Clean Water State Revolving Fund Cluster
-	Student Financial Assistance Cluster
-	Temporary Assistance for Needy Families (TANF) Cluster
-	Child Care and Development Fund (CCDF) Cluster
-	Medicaid Cluster

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

No financial statement findings were reported.

**State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section III – Federal Award Findings and Questioned Costs

Finding Number	2017-001
CFDA Number	10.553, 10.555, 10.556, 84.287, and 84.377
Program Name	Child Nutrition Cluster Twenty-First Century Community Learning Centers School Improvement Grants
Federal Agency	Department of Agriculture Department of Education
State Agency	Department of Education
Federal Award Identification Number	2014(CN&IN)109945, 2015IN109945, 201616(15)N109945, 201717N109945, S287C140043, S287C150043, S287C160043, S377A100043, S377A120043, S377A130043, S377A140043, S377A150043, S377A160043
Federal Award Year	2010 through 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	2016-003
Pass-Through Entity	N/A
Questioned Costs	N/A

As reported in the prior year, the Department of Education still did not demonstrate it verified that subrecipients received Single Audits

Background

Pursuant to the Office of Management and Budget’s Uniform Grant Guidance and “Audit Requirements,” Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 501,

(a) Audit required. A non-Federal entity that expends \$750,000 or more during the non-Federal entity’s fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

Furthermore, as the pass-through entity, the Tennessee Department of Education is required by 2 CFR 200.331(f) to verify that all subrecipients that spend \$750,000 or more obtained a Single Audit. As part of that 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

¹ 2 CFR 200.521(d) states, “The Federal awarding agency or pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the FAC [Federal Audit Clearinghouse].”

Status of Management's Corrective Action of Prior-Year Finding

In the prior audit, we reported that, although management maintained documentation that it verified that the local educational agencies (LEAs) obtained Single Audits, it did not maintain documentation that it verified that non-LEAs, such as charter schools, religious organizations, and other community-based organizations, obtained Single Audits. According to management's comment to the prior-year finding, in November 2016 the former Director of Internal Audit developed a spreadsheet to track

- subrecipients needing a Single Audit,
- details of findings reported in subrecipient Single Audit reports, and
- management decision letters sent from department management to subrecipients that received Single Audit findings.

Condition

We reviewed all 240 of the department's subrecipients, which consisted of both LEAs and non-LEAs. Based on our testwork, we determined that, although management developed a spreadsheet to track subrecipients requiring a Single Audit, they failed to identify and track 56 non-LEA subrecipients (23%). Forty-three of them received over \$750,000 in federal funds, thus requiring the subrecipient to obtain a Single Audit. The department was required to ensure the subrecipients were audited. For audits resulting in findings the department was also required to obtain the subrecipient's corrective action plan and to issue a management decision as to corrective actions. For all 56 subrecipients, we obtained² and reviewed their Single Audit reports to determine if the reports contained education-related findings that would require the department to issue management decisions and follow up on the subrecipient's corrective action. Based on our review, we found no such findings.

We also found that, although we reported this issue in our prior audit, management still has not identified the risk of noncompliance with audit requirements in its annual risk assessment.

Criteria

2 CFR 200.331(f), states, "All pass-through entities must . . . Verify that every subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in Section 200.501 Audit requirements."

² We obtained Single Audit reports for county and special school districts and charter schools from the Tennessee Comptroller of the Treasury, Division of Local Government Audit's website (<http://comptroller.tn.gov/la/ReportsAudits.asp>). We obtained Single Audit reports for non-LEAs from the Federal Audit Clearinghouse's website (<https://harvester.census.gov/facweb/Default.aspx>).

Cause

According to the current Internal Audit Director, this issue is the result of inadequate employee training, a lack of understanding of the requirement to track subrecipients requiring a Single Audit, and an inefficient tracking process.

Effect

When management does not verify that applicable subrecipients obtain Single Audits, it increases the risk that subrecipients may, 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 federal grant awards' terms and conditions.

Recommendation

The Commissioner should work with the Internal Audit Director to implement adequate procedures to ensure that the department verifies that all subrecipient audits are completed as required and, when needed, that the department requests subrecipients take corrective action when findings are identified through the audits.

Management should also evaluate the effectiveness of the control activities it has 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 department has drafted revised procedures and implemented an updated tracking system to confirm that subrecipients who are reasonably expected to exceed \$750,000 in federal expenditures have received their required audits. In addition, ongoing training is occurring to ensure that the expectations and requirements are clear.

Finding Number	2017-002
CFDA Number	10.553, 10.555, and 10.556
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Education Department of Human Services
Federal Award Identification Number	2014(CN&IN)109945, 2015IN109945, 201616(15)N109945, 201717N109945
Federal Award Year	2014 through 2017
Finding Type	Material Weakness
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility Matching, Level of Effort, Earmarking Period of Performance Reporting
Repeat Finding	2016-009
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Education did not provide adequate internal controls in one area that was noted in the prior audit

Condition, Criteria, Cause, Effect

The Department of Education did not design and monitor internal controls that were related to one of the department's systems. We are reporting internal control deficiencies in one area that were repeated from the prior audit because department management did not implement sufficient corrective action. These conditions were in violation of state policies and 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 conditions continued to exist during the audit period.

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 recommendations for improvement.

Recommendation

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

Management's Comment

We concur. 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	2017-003
CFDA Number	84.287 and 84.377
Program Name	Twenty First Century Community Learning Centers School Improvement Grants
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	S287C140043, S287C150043, S287C160043, S377A100043, S377A120043, S377A130043, S377A140043, S377A150043, S377A160043
Federal Award Year	2013 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

Department of Education management did not maintain documentation to demonstrate that the Executive Director of Local Finance reviewed the maintenance of effort calculations for local educational agencies

Background

The U.S. Department of Education provides federal grant funds to assist states in providing free public education to children. The Tennessee Department of Education is subject to federal maintenance of effort requirements related to local educational agencies' (LEAs) expenditures from non-federal sources. Specifically, for any given federal fiscal year, LEAs must spend at least 90% of education-related expenditures from non-federal sources as it did in the second preceding federal fiscal year. For example, for the federal fiscal year October 1, 2015, through September 30, 2016 (FFY 2016), LEAs were required to spend at least 90% of the base FFY 2014 expenditures from non-federal sources. In other words, in this example, the amount of expenditures from non-federal sources during FFY 2014 would be the maintenance of effort threshold for FFY 2016. If an LEA fails to maintain effort, the state must reduce the LEA's federal grant allocation.

In gaining our understanding of the process, the Executive Director of Local Finance told us that in order for the department to determine if the LEAs maintained the appropriate level of effort, the Tennessee Department of Education's Manager of LEA and Teacher Data performs the maintenance of effort calculation for all LEAs annually to monitor if the LEAs reached the 90% requirement. Once the Manager of LEA and Teacher Data completes the calculation, the Executive Director of Local Finance in the Department of Education reviews the calculation to verify its accuracy.

Condition and Cause

Based on our evaluation of management's process to calculate the LEAs' maintenance of effort, we determined that management could not provide documentation to demonstrate that the

Executive Director of Local Finance reviewed the calculations for accuracy and assurance that LEAs had complied with the maintenance of effort requirements.

In the department's annual risk assessment, management identified not meeting the minimum limits for maintenance of effort as a risk; however, management did not identify a specific control to mitigate the risk other than the fact that program and Office of Local Finance staff "work together to pull the required local financial data together to ensure maintenance of effort has been maintained."

Based on discussion with the Executive Director of Local Finance, we found that the Office of Local Finance has not established a documentation requirement for the review part of the process. As a result, we could not see any evidence that the Executive Director performed any review of the LEAs' maintenance of effort calculations.

Because we had no assurance that the LEAs met the maintenance of effort compliance requirements, we had to reperform the maintenance of effort compliance calculations. We obtained the local financial data and reperformed the calculations and, based on our audit work, we determined that the LEAs had met the minimum maintenance of effort requirement and the department's calculations were accurate.

Criteria

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies, including state agencies. According to Sections 3.9 through 3.11 of the Green Book,

Management develops and maintains documentation of its internal control system.

Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel....

Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

Additionally, "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

Without a proper system of internal controls over maintenance of effort, the risk that the department miscalculates LEAs' compliance with federal fiscal effort requirements increases. If a miscalculation results in an LEA's noncompliance, the LEA could lose necessary education funds.

Recommendation

The Commissioner should work with the Office of Local Finance to implement appropriate internal controls to ensure staff documents the review of compliance with maintenance of effort requirements. Additionally, management should evaluate the effectiveness of the control activities for this risk and update the department's annual risk assessment to reflect any new controls management implements.

Management's Comment

We concur. For FY18 and going forward, the Executive Director of Local Finance will ensure written documentation of the calculations review and list the districts (if any) that did not meet maintenance of effort, as well as what actions will be taken by the department as a result of the failure to meet maintenance of effort. The documentation will be placed in the file along with the maintenance of effort calculations.

Finding Number	2017-004
CFDA Number	84.287 and 84.377
Program Name	Twenty-First Community Learning Centers School Improvement Grants
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	S287C120043, S287C130043, S287C140043, S287C140043, S287C150043, S287C150043, S287C160043, S287C160043, S377A100043, S377A120043, S377A130043, S377A130043, S377A140043, S377A140043, S377A150043, S377A150043, S377A160043
Federal Award Year	2012 through 2016
Finding Type	Significant Deficiency
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles Eligibility Period of Performance Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Education did not ensure that the internal controls related to the vendor-hosted ePlan application were appropriately designed and operating effectively

Background

The Tennessee Department of Education contracted with an information technology (IT) vendor to develop and maintain the ePlan application, the department's web-based grant management system that local educational agencies (LEAs) use to

- apply for federal education grants;
- submit and revise LEA plans (such as needs assessments and prioritized goals and strategies) and reports (such as expenditure tracking, the budget summary, and year-to-date expenditures);
- report expenditures and submit request reimbursements; and
- process budget amendments and plan revisions.

ePlan supports two main processes: the LEAs' grant funding application process and reimbursement requests. The LEAs submit, and the department reviews and approves, applications, plans, and reports entirely within ePlan. The ePlan application software and education program data are stored and processed in the cloud at a data center managed by the IT contractor's vendor.

Condition

Although federal regulations require the department to do so, department management did not evaluate whether the IT contractor or data center vendor implemented any controls over the processing and storage of education program data or whether the controls implemented were in place and operating effectively to ensure the department could properly administer the programs. Management did not evaluate internal controls either internally or by obtaining and reviewing an independent audit report, such as a System and Organization Controls (SOC) audit report,³ that adequately described the IT contractor's and data center vendor's internal controls and the auditor's opinion regarding the effectiveness of controls. The IT contractor did not have a SOC audit that applied to the audit period, but we obtained the data center vendor's SOC audit report directly from the data center vendor. Without an understanding of the controls at the IT contractor, however, we were unable to determine which controls at the data center vendor applied to the IT contractor.

Criteria

According to Section D.11., "Monitoring," of the IT contractor's contract, "The Contractor's activities conducted and records maintained pursuant to this Contract shall be subject to monitoring and evaluation by the State, the Comptroller of the Treasury, or their duly appointed representatives."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies, including state agencies. According to Sections 3.09 through 3.11 of the Green Book,

Management develops and maintains documentation of its internal control system.

Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. . . .

Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

"Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations*, Part 200, Section 62, states, "Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity

³ System and Organization Controls (SOC) audits are completed by Certified Public Accountants in accordance with American Institute of Certified Public Accountants standards and are applicable to service organizations such as the IT contractor and data center vendor. The SOC 1 Type 2 and the SOC 2 Type 2 reports provide management and other auditors the most information regarding the design and effectiveness of internal controls. The former focuses on internal control over financial reporting, and the latter focuses on data security, availability, processing integrity, confidentiality, and/or privacy.

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

The state's Central Procurement Office and the department did not include language in the contract that required an independent audit of the IT contractor's internal controls. Additionally, the department's procedures did not provide for a review of the contractor's or the data center vendor's internal controls to ensure they were appropriately designed and operating effectively, both prior to the awarding of the contract and on an ongoing basis.

Effect

For the major programs audited, the department approved approximately \$33 million in reimbursement requests to subrecipients in ePlan. Failure to provide an independent audit of internal controls over ePlan prevents department management from obtaining assurance that the reimbursements processed and information collected to comply with federal requirements governing allowable activities, cost principles, eligibility, period of performance, and reporting are accurate and complete. Without this review, we were unable to determine whether controls were implemented or operating effectively. We could not achieve our audit objectives related to system controls.

Recommendation

Management should ensure that internal controls related to their applications are appropriately designed and operating effectively. In addition, for future contracts with information systems vendors, the department should obtain an understanding of internal controls and assess the risk associated with inadequate or ineffective controls before awarding the contract. Also, the department should work with the Central Procurement Office to ensure that future contracts of this nature include language that requires annual audits of internal controls, such as a SOC 1 Type 2 audit or a SOC 2 Type 2 audit.

Management's Comment

We concur that the department should ensure that internal controls related to ePlan are designed and operating effectively. The department has since amended the contract with the ePlan supplier

to include more robust language involving having the required internal controls as well as providing information regarding those controls. The department will ensure that this more robust language will be used in future versions of the contract, and will continue to work with the Central Procurement Office on standardized language to be included.

Finding Number	2017-005
CFDA Number	84.377
Program Name	School Improvement Grants
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	S377A140043
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-010
Pass-Through Entity	N/A
Questioned Costs	\$41,408

Although management has made improvements to internal controls over the School Improvement Grants program since fiscal year 2013, they did not identify unallowable costs charged to the program by charter management organizations during the audit period

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 2017, the Tennessee Department of Education spent approximately \$17 million in School Improvement Grants program funds to implement school intervention models, including the department's Achievement School District (ASD).⁴

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. In its early years, department management allowed ASD to maintain its own accounting system to record state and federal funds received and to process expenditure transactions using these funds.

Status of Management's Corrective Action of the Prior-year Finding

Since fiscal year 2013, we noted that neither the department nor ASD management had internal controls over their reimbursement processes, including the process for the department reimbursing ASD and subsequently seeking reimbursement from the federal government, resulting in department management charging ASD costs to the School Improvement Grants program that were not adequately supported. Due to these repeated issues, the department took the following steps beginning on July 1, 2016:

- The department took control of ASD's fiscal and federal program operations, including transitioning ASD's accounting system to Edison, the state's accounting system.

⁴ Created by Section 49-1-614, *Tennessee Code Annotated*.

- After shutting down ASD's fiscal and program operations, the department hired new fiscal and program staff to perform ASD-related responsibilities previously performed by ASD employees.
- Upon hiring departmental employees, management established new controls, modified existing controls, and tested those controls to ensure the controls effectively addressed the risks in the reimbursement process.
- To ensure a smooth transition from ASD's accounting system to Edison, management used both systems concurrently until October 2017 to account for fiscal year 2017 transactions. As of July 1, 2017, all of ASD's accounting officially transitioned to Edison.

Current Reimbursement Process

During fiscal year 2017, ASD was responsible for 31 schools:

- 28 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 to increase students' 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 for submitting monthly reimbursement requests along with supporting documentation to ASD to recover these costs.

In order for CMOs and achievement schools to obtain reimbursements from the department, each entity must follow the department's new federal funds reimbursement process, or packet process. In these packets, the entities must provide line-item descriptions of each expenditure they want reimbursed. In addition, each entity must supply supporting documentation, such as semi-annual certifications or personnel activity reports to support payroll expenditures charged to federal program(s), as well as invoices and receipts for goods and services purchased.

Once the packets are submitted to departmental ASD staff, the program staff initiate the review process by ensuring the expenditures listed on the packet are mathematically accurate, align with the entity's budget, and have supporting documentation. The program staff also review the expenditures for allowability, allocability, and reasonableness. ASD program staff then forward the packet to the ASD Superintendent for approval.

After the Superintendent's approval, the ASD financial staff consolidate all the CMOs' and achievement schools' packets into a consolidated reimbursement request; enter the request into ePlan, the department's grant management system; and process the request for payment.

Results of Current Audit Work

Condition and Criteria

Although the department took steps to correct past findings, we identified instances of unallowable costs charged to the program.

Internal Control Deficiencies

We found that the department's ASD staff performed inadequate reviews of CMOs' supporting documentation. Specifically, we found that the staff reviewed illegible payroll support and approved a request for payment to the CMOs for more than actual payroll expenses. Additionally, due to the inadequate reviews, we found CMO expenditures that were reimbursed twice, payroll reimbursements that did not align to CMO employees' personnel activity reports, and CMOs that had not provided time and effort documentation.

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* (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.

Noncompliance With Allowable Cost Principles

We tested the population of 12 consolidated reimbursement requests, totaling \$5,483,350, that the department paid to ASD using School Improvement Grants funds and found errors with two reimbursement requests (17%) for three different CMOs, resulting in \$41,408 in known questioned costs. The 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
11/3/2016	\$1,082,664	\$205	Department's reimbursement for one CMO's payroll expenditures exceeded the actual payroll costs.
12/22/2016	\$1,486,101	\$41,203	For one CMO, the department reimbursed the CMO for the same expenditure twice and also reimbursed payroll expenditures in excess of actual payroll costs (\$8,915). For another CMO, the department reimbursed the CMO in excess of actual payroll costs or for costs that were not supported with the appropriate documentation (\$32,288).
Total Known Questioned Costs		\$41,408	

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

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

Furthermore, OMB Circular A-87, Section C, "Basic Guidelines," states, "To be allowable under Federal awards, costs must . . . be adequately documented."⁵

⁵ Because these reimbursements were charged to a 2014 grant, the department was required to follow the OMB Circular A-87 to ensure compliance with allowable cost principles.

Risk Assessment

In the department's annual risk assessment, management identified the risk that costs charged to federal programs will not be adequately documented at the department and subrecipient level. This risk was specifically identified for the ASD's School Improvement Grants program expenditures. To mitigate the risk, the department relies on training provided to subrecipients, as well as program and fiscal monitoring.

Cause

Based on discussion with the Executive Director of Operational Strategy, the deficiencies occurred due to the transition from moving ASD operations under the oversight of the department. During the transition, the department hired and trained new staff specifically for ASD federal reimbursements, and the staff were still learning the new process when the errors occurred. Furthermore, management indicated that high turnover at the CMOs also contributed to the errors.

Effect

When the department does not have internal controls in place to ensure that the expenditures are adequately supported, management's risk of errors or misuse of School Improvement Grant 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 of the Department of Education should continually assess and train employees on the proper processes and internal controls to ensure they are operating effectively.

Management's Comment

We concur. The transactions flagged for findings occurred as newly hired Achievement School District (ASD) staff members were being on-boarded, and these functional responsibilities were being transitioned to new owners. Implementing and continuing to hone the procedures developed in the prior fiscal year, the department quickly improved on implementation fidelity as evidenced by the fact that no questioned costs were identified in the second half of the fiscal year. The department continues to further support improvement in the ASD federal programs work through direct support of the Consolidated Planning and Monitoring (CPM) division which leads the state's federal program implementation and compliance efforts. The ASD team has also provided ongoing trainings and support calls to school and charter operator leads to improve the efficiency and accuracy of the reimbursement packet process.

Overall, the ASD's federal reimbursement review procedures and implementation demonstrated a substantial improvement over the prior year (a reduction of 94% in questioned costs), with less than 1% of this year's sample generating questioned costs. The department will continue to improve its own internal procedures and controls to ensure compliance and accuracy in the ASD federal reimbursement process.

Finding Number	2017-006
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	1705TN5ADM, 1705TN5MAP
Federal Award Year	2016
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$37,923

TennCare inappropriately overdrawed \$37,923 of net federal reimbursements because it did not allocate indirect administrative expenses in accordance with its approved public assistance cost allocation plan

Background and Criteria

The Division of TennCare is responsible for multiple federal programs, and each program may have different reimbursement rates for the different types of costs charged to the program. Costs that are not directly attributable to specific programs or reimbursement rates, such as overhead, are allocated to the individual programs using systematic and rational methodology described in a public assistance cost allocation plan. The public assistance cost allocation plan, which must be approved by the U.S. Department of Health and Human Services consists of a narrative description of the procedures used to identify, measure, and allocate all indirect costs to each of the programs TennCare administers. TennCare must follow the approved plan. TennCare's approved plan states, "the most recent actual expenditures for the YTD [year-to-date] fiscal year will be used to determine allocation percentages." TennCare considers actual expenditures to be cash-basis expenditures, which means that accrual-based expenditures must be removed from the cost allocation plan calculations.

Condition

We tested each quarterly cost allocation TennCare made during the year ended June 30, 2017, to determine if TennCare complied with its approved cost allocation plan. Based on this review, we found that although TennCare properly excluded accruals at the end of the state fiscal year 2016, TennCare improperly included accrual reversals in the calculation for the first quarter of the state fiscal year 2017.

Cause

The calculation and journal entry for the cost allocation plan were not adequately reviewed before posting the cost allocation plan journal entry.

Effect

The error resulted in the net overdraw of \$37,923 from federal reimbursement of the misallocated indirect costs.

Recommendation

TennCare should return the federal questioned costs to the Medicaid program. TennCare management should ensure controls are in place and operating effectively to prevent errors in the cost allocation calculations performed each quarter.

Management's Comment

We concur. Cost allocation journals are intended to be recorded on a cash basis. We inadvertently failed to remove state agency accruals in our quarter 1 cost allocation journal data. We have developed a new query to use in the preparation of the cost allocation journal that will automatically remove both internal accruals and state agency accruals from cost allocation data. The journal has been corrected, and the overdraw of federal funds has been returned.

Finding Number	2017-007
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	1605TN5MAP, 1705TN5MAP
Identification Number	
Federal Award Year	2016 and 2017
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$1,813

TennCare paid two fee-for-service claims at incorrect amounts, resulting in federal questioned costs of \$1,813

Condition

For the year ended June 30, 2017, we selected a sample of 60 claims, totaling \$242,072, from a population of fee-for-service claims, totaling \$2,857,481,201, to determine the adequacy of supporting documentation for the costs associated with these claims. We reviewed items such as medical records, service logs, office visit and procedure notes, physician orders, and pricing information to determine if the claims were adequately supported. Of the 60 fee-for-service claims tested, 2 claims (3%) were overpaid by a total of \$2,791. Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 516(a)(3) requires us to report all known questioned costs when likely questioned costs exceed \$25,000 for a federal compliance requirement. We believe likely questioned costs exceed \$25,000 for this condition.

Criteria

According to 2 CFR 200.403, “Costs 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.”

Cause

The contractor responsible for administering TennCare’s self-insured health plan did not code the proper fee schedule amounts to the service provider’s profile in the contractor’s information system.

Effect

TennCare reimbursed these healthcare providers \$3,118 instead of the appropriate amount of \$327, which is a \$2,791 overstatement. The federal portion of these questioned costs was \$1,813, and the remaining balance was state matching funds.

Recommendation

TennCare should ensure that the contractor responsible for administering TennCare's self-insured health plan properly configures its information systems to reimburse providers at the appropriate rates. TennCare should also seek recovery of the overpayment and return the federal questioned costs to the Medicaid program.

Management's Comment

We concur. The first claim allowed the billed charges to be paid because no provider rate agreement was loaded for this provider. This incorrect payment amount was due to a manual error by the TennCare contractor who cleared the flag that would have prevented the claim from going through the payment process without an agreement loaded. This provider's rate agreement was entered into the contractor's system on August 30, 2017, and this claim has been adjusted to reflect the correct payment amount.

The second claim allowed an incorrect amount to be paid due to a 1% rate decrease that was not applied to this provider's agreement. This incorrect payment amount was due to a manual error by the TennCare contractor who neglected to apply the rate decrease to this provider's agreement during the contractor's system configuration update. The 1% rate decrease was applied to this provider's agreement in the contractor's system on July 20, 2017, and this claim has been adjusted to reflect the correct payment amount.

The TennCare contractor is retraining and educating staff concerning these configuration errors to prevent these issues from recurring.

Finding Number	2017-008
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	05-1605TN5ADM, 05-1705TN5ADM, 05-1605TN5MAP,
Identification Number	05-1705TN5MAP
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

TennCare did not provide adequate internal controls in one specific area

TennCare had a significant deficiency in internal controls in one specific area. We observed a condition that violates 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 TennCare with detailed information regarding the specific condition 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 one area. 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 in part. There was a miscommunication among the key stakeholders as to what data was required to fulfill the audit request; however, we did have the ability to provide the correct information. We have the policies and procedures regarding the one area in place. As part of our corrective action, we have designated a single point of contact to ensure the auditors are in direct communication with the correct individual(s) to obtain the requested information and eliminate any future miscommunications.

Finding Number	2017-009
CFDA Number	10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, 93.575, and 93.596
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
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	2013IS820445, 2015IQ390345, 2015IS251445, 201616IQ390345, 201616S251445, 201616S803645, 201717IQ390345, 201717IS251445, 2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717IN20245, 201717N105045, 201717N109945, 8044 H126A100063, 8044 H126A120063, 8044 H126A130063, 8044 H126A140063, 8044 H126A150063, 8044 H126A160063, 8044 H126A170063, G1202TNTANF, G1302TNTANF, G1402TNTANF, G1502TNTANF, G1602TNTANF, G1702TNTANF, 1304TNCSES, 1504TNCSES, 1604TNCSES, 1704TNCSES, 1704TNCSEST, G1401TNCCDF, G1402TNTANF, G1501TNCCDF, G1502TNTANF, G1601TNCCDF, G1602TNTANF, and G1701TNCCDF
Federal Award Year	2010 through 2017
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2016-013
Pass-Through Entity	N/A
Questioned Costs	N/A

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

Condition, Criteria, Cause, Effect

The department did not design and monitor internal controls in four specific areas, including one area that we noted in the three prior-year audits. We are reporting internal control deficiencies in these areas because department management did not implement sufficient corrective action. 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 conditions continued to exist during the audit period. For one area, management corrected the condition after the audit period.

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 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

We concur.

The department delivered a confidential response.

Finding Number	2017-010
CFDA Number	10.559, 10.560, 10.561, 84.126, 93.558, 93.563, 93.575, 93,778, and 96.001
Program Name	Child Nutrition Cluster State Administrative Expenses for Child Nutrition 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	201616N109945, 201717N109945, 201717N253345, 201616IS251445, 201717IS251445, 8044 H126A160063, 8044 H126A170063, G1502TNTANF, G1602TNTANF, 1504TNCSES, 1604TNCSES, 1704TNCSES, G1601TNCCDF, G1701TNCCDF, 05-1605TN5ADM, 05-1705TN5ADM, 8826 04-16-04TNDI00, and 8826 04-17-04TNDI00
Federal Award Year	2015 through 2017
Finding Type	Significant Deficiency (10.559, 10.561, 84.126, 93.563, and 93.575) Material Weakness (93.558) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-015
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.560	201717N253345	\$6,623
10.561	201616IS251445	(\$79,754)
10.561	201717IS251445	\$164,918
93.563	1504TNCSES	(\$6,189)
93.563	1604TNCSES	(\$242)
93.563	1704TNCSES	\$57,894
93.778	05-1605TN5ADM	(\$44,191)
93.778	05-1705TN5ADM	\$113,510
96.001	8826 04-16-04TNDI00	(\$41)
96.001	8826 04-17-04TNDI00	\$123,359

As noted in the prior audit, fiscal staff for the Department of Human Services again did not adhere to federal requirements by allocating costs to programs based on prior period information rather than current period information, resulting in federal questioned costs of \$335,887

Background

Because the Department of Human Services administers various public assistance programs, federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by the department. Fiscal staff within the Department of Finance and Administration create and submit the cost allocation plan on behalf of the Department of Human Services, as well as allocate costs to federal grant awards in accordance with the cost allocation plan.

In accordance with federal regulations, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the cost allocation plan. During the audit period, July 1, 2016, through June 30, 2017, two cost allocation plans were effective for the department. The first plan was effective July 1, 2016, through March 31, 2017. The second was effective April 1, 2017. A total of \$381,213,289 of the department's expenditures during our audit period was subject to allocation under the cost allocation plan. (Federal regulations exclude from cost allocation plans expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.)

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.

Each quarter, fiscal staff prepare 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 the federal programs administered by the department.

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

Percentages Used to Allocate Costs

For the department's activities that benefit multiple federal and state programs, fiscal staff⁶ allocate the total amount of expenditures for the activities to the programs based on percentages.

To describe fiscal staff's responsibilities under cost allocation, for example, in January, if 75% of the department's employees work on the Supplemental Nutrition Assistance Program (SNAP) and 25% work on the Temporary Assistance for Needy Families (TANF) program, fiscal staff should allocate costs for the Commissioner's Office, which oversees all employees, 75% to SNAP and 25% to TANF. We continue this example for the next month under the assumption that in February a different proportion of employees work on these federal programs. Thus, in February, if 60% of the department's employees work on SNAP and 40% work on TANF, federal cost principles require allocating the expenditures to the grants based on February's 60/40 percentages, rather than the prior period's 75/25 percentages. We found, however, that fiscal staff did not always use current period percentages, and regularly used the prior period's percentages.

To understand management's rationale for this methodology, we discussed the process with the Department Controller, who stated that he believed that using prior period percentages would not over- or undercharge programs.⁷ We noted, however, that using prior period percentages did not adhere to a several of federal requirements. For example, \$109,884,675 of the department's administrative costs incurred during the audit period, July 1, 2016, through June 30, 2017, was allocated using random moment time sampling, and Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 430(i)(5)(i)(C), requires the results of the state's random moment sampling method to be applied to the period being sampled. While additional specific requirements are addressed further below, the basic cost principle is that federal regulations require costs to be allocated to federal programs based on the relative benefit received. In the example discussed above, SNAP only received 60% of the benefits in February; therefore, allocating costs to SNAP based on the prior period percentage (75%) would overcharge SNAP by 15%.

Even if the prior period's percentages are consistently used each month instead of the current period's percentages, programs could be over- or undercharged. These differences can accumulate over time, as demonstrated by the \$188,302 total overcharge for Medicaid in the example in Table 1 below, which uses actual data for the Adult Protective Services division of the department for July 2016 through March 2017:

⁶ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including preparing and implementing cost allocation plans. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

⁷ As discussed further below, we could find no evidence to support the conclusion that programs would not be over- or undercharged by using prior period information, and the evidence we reviewed suggested the opposite.

Table 1
Example of Accumulating Overcharges and Undercharges
Caused by Using Prior Period Percentages for Cost Allocation Table ACS-3*

Period	Program	Current Period's Percentage	Prior Period's Percentage	Percentage Difference	Allocable Costs	SSBG Overcharge (Undercharge)	Medicaid Overcharge (Undercharge)
July – Sep 2016	SSBG	61%	59%	-2%	\$2,283,194	\$(53,621)	
July – Sep 2016	Medicaid	39%	41%	2%	\$2,283,194		\$53,621
Oct – Dec 2016	SSBG	64%	61%	-3%	\$2,355,050	\$(72,179)	
Oct – Dec 2016	Medicaid	36%	39%	3%	\$2,355,050		\$72,179
Jan – Mar 2017	SSBG	67%	64%	-2%	\$2,569,663	\$(62,502)	
Jan – Mar 2017	Medicaid	33%	36%	2%	\$2,569,663		\$62,502
Grand Total						\$(188,302)	\$188,302

* Percentages in this table were rounded for presentation in the percentage columns, but not rounded in the calculations in the difference and overcharge (undercharge) columns.

Based on our review of the department's accounting records, the department allocated \$381,213,289 through the cost allocation process during the audit period, July 1, 2016, through June 30, 2017; therefore, it is critical that the percentages of costs allocated to various programs are appropriate, because small differences in prior period and current period percentages could lead to fiscal staff overcharging federal programs by significant amounts over time.

Audit Results

During the prior audit, we noted that fiscal staff used prior period percentages to allocate costs for two divisions within the department, among other instances of noncompliance related to the cost allocation plan. Management concurred in part with the prior audit finding and noted that the department was in the process of revising the cost allocation plan to take effect April 1, 2017.

During the current audit, we again noted several instances in which the department used prior period information to allocate the current period's costs for certain divisions during the period July 1, 2016, through March 31, 2017. In addition, the department amended its cost allocation plan, effective April 1, 2017, to begin allocating *all* divisions' costs based on prior period percentages. As a result of the errors identified during the audit, we questioned a net⁸ total of \$335,887 in federal costs and \$180,994 in state matching costs.

Summary of Conditions

We tested the department's cost allocation processes for the periods October 1, 2016, to December 31, 2016, and April 1, 2017, to June 30, 2017. Based on testwork performed, we found that the Department Controller did not ensure that fiscal staff allocated costs in accordance with federal requirements. Specifically, we noted that fiscal staff

⁸ 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.

- used allocation information from the prior quarter (prior period percentages) to allocate all costs for the department for the quarter April 1, 2017, through June 30, 2017 (Condition A);
- used prior period percentages to allocate certain divisions' costs for part or all of the audit period, July 1, 2016, through June 30, 2017 (Condition B).

Condition A. Fiscal Staff Allocated All Departmental Costs Using Prior Period Percentages for Three Months

Throughout our audit fieldwork we discussed management's actions since the prior audit to resolve the prior audit issues. We recognize, based on these discussions, that management is continuing to work through their processes to find the best method to achieve federal compliance given the magnitude of the transactions involved in administering the federal grants. As auditors, we are also required to follow federal regulations in performing our audit and in reporting our conclusions. In this audit, given management's on-going assessment and efforts to change processes to resolve all prior noted conditions, we believe it is important to note that our finding is required since full corrective action has not yet occurred. The next audit cycle will be a critical analysis of true resolution. As such, during our audit scope we found the following condition.

The department's amended *Public Assistance Cost Allocation Plan* became effective on April 1, 2017. During the planning stage of the audit, we noted that the Department Controller included language in the plan that stated that "the Department generally relies on allocation statistics from the immediately preceding quarter [prior period percentages] to allocate current quarter costs." This means that for the period April 1, 2017, through June 30, 2017, fiscal staff allocated all costs based on the relative benefits federal programs received in the prior quarter, January 1, 2017, through March 31, 2017.

Based on discussion with the U.S. Department of Health and Human Services' Cost Allocation Services Division (CAS), using prior quarter percentages was appropriate for estimates, but the department would need to perform end of the year adjustments using current quarter data for each quarter. CAS stated if fiscal staff did not make these adjustments, the department would not be in compliance with 2 CFR 200.405(a).

In our discussions with the Department Controller, he asserted that the differences caused by using prior quarter percentages would be negated in the next quarter when the current quarter's percentages will be used. Similarly, in an email exchange between the Department Controller and a federal official involved in the cost allocation approval process—the Lead Grants Management Specialist within the U.S. Department of Health and Human Services' Administration for Children and Families—the Department Controller provided information to the federal official, such as,

By consistently using the same methodology from quarter to quarter, the methodology does not over/under allocate costs to any benefiting program. . . . In short, there is nothing to "true up." At worst, were the allocation statistics to fluctuate significantly from one quarter to the next, there would be a one quarter "lag" in reflecting under/over allocations that would be compensated for in the subsequent quarter.

Although the federal official voiced her concerns regarding the methodology by stating, in part, “the methodology could under/over allocate costs to benefitting programs which is why ACF [Administration for Children and Families] requests a ‘true up’ once all statistics are intact,” the Department Controller responded by stating, in part, “it would be at worst one more quarter before those allocation statistics were used to allocate current quarter costs; therefore, ‘truing them up’ for the fluctuation.”

In our attempt to determine whether management’s statements to the federal partner were reasonable, we asked for supporting evidence of management’s cost impact analysis. Because this analysis did not include all divisions of the department and only involved one quarter, we did not think the analysis was sufficient to support the assertion that the department’s methodology would achieve compliance over two quarters. Management provided no other evidence to support management’s statements.

In an effort to satisfy ourselves as to whether the methodology based on prior period percentages, rather than current period percentages, was a reasonable methodology, we performed a comprehensive analysis to test management’s statement that overcharges caused by using prior period percentages would reverse in the subsequent period. Specifically, for all divisions in the department, we reperformed the department’s cost allocation procedures using prior period percentages for the period October 1, 2016, through March 31, 2017. We then compared these allocations to the fiscal staff’s actual calculations, which used current quarter percentages for the same period of time. It is important to note that our calculations were based on fiscal staff’s own schedules; we simply substituted fiscal staff’s current quarter percentages with their prior quarter percentages in their schedules and summarized the results. Based on our procedures, we found that the differences caused by using prior period data did not reverse in the next quarter and the differences this methodology would cause over time did not appear to be immaterial as indicated by management.

Specifically, we noted that using prior period percentages would have resulted in federal programs being overcharged by up to \$500,000 per program over the six-month period, which suggests that using the methodology could result in overcharging programs by up to \$1 million per year. It is not clear that federal officials would consider potential overcharges of up to \$1 million per program per year to be immaterial. See Table 2 below for the differences using prior period percentages would have caused each quarter over the course of these two periods.

Table 2
Overcharges (Undercharges) by Program Due to the Use of Prior Period Statistical Data,
for the Period October 1, 2016, through March 31, 2017

Program	October 2016 - December 2016	January 2017 - March 2017	Total Expenditures
Programs Overcharged			
Child Care and Development Block Grant	\$53,234	\$142,165	\$195,399
Child Support Enforcement	(47,688)	113,691	66,003
Community Services Block Grant	90,580	(28,467)	62,113

Medical Assistance Program	105,767	1,583	107,350
State Administrative Expenses for Child Nutrition	(46,188)	136,680	90,492
Social Security Disability Insurance	39,904	34,375	74,279
Temporary Assistance for Needy Families	237,513	293,543	531,056
Totals	\$433,122	\$693,570	\$1,126,692*
Programs Undercharged			
State Only Activities	\$11,864	(108,333)	(96,469)
Child and Adult Care Food Program	5,228	(104,297)	(99,069)
Independent Living Services for Older Individuals Who Are Blind	(4,565)	2,969	(1,596)
Summer Food Service Program	(56,441)	(3,399)	(59,840)
Supplemental Nutrition Assistance Program	(222,942)	(372,362)	(595,304)
Social Services Block Grant	(116,816)	(80,794)	(197,610)
Vocational Rehabilitation	(49,579)	(30,255)	(79,834)
Totals	\$(433,251)	\$(696,471)	\$(1,129,722)*

*There is a net total of (\$3,032) due to immaterial errors detected in fiscal staff's original calculations, as well as rounding differences in our calculations.

Because federal requirements, communications from federal officials, and our procedures all suggested that using current period percentages was the appropriate method, we reformed the cost allocation procedures for the period April 1, 2017, through June 30, 2017, using current period percentages and compared these allocation amounts to the amounts fiscal staff calculated using prior period percentages. We questioned the differences caused by using prior period data rather than current period data. See Table 3 below for more information.

Table 3
Overcharges (Undercharges) by Program Due to the Use of Prior Period Percentages for the Period of April 1, 2017, Through June 30, 2017

Program	Federal Expenditures	State Expenditures	Total Expenditures
Programs Overcharged			
Child Support Enforcement	\$45,761	\$23,574	\$69,335
Medical Assistance Program	44,087	44,087	88,174
State Administrative Expenses for Child Nutrition	7,182	-	7,182
Summer Food Service Program	1	-	1
Supplemental Nutrition Assistance Program	192,586	192,586	385,172
Social Security Disability Insurance	123,359	-	123,359
Total	\$412,976	\$260,247	\$673,223*
Programs Undercharged			
Child Care and Development Block Grant	\$(7,474)	\$(130,477)	\$(137,951)

Community Services Block Grant	(6,873)	-	(6,873)
Independent Living Services for Older Individuals Who Are Blind	(7,256)	(806)	(8,062)
Social Services Block Grant	(48,484)	-	(48,484)
Temporary Assistance for Needy Families	(200,954)	(200,954)	(401,908)
Vocational Rehabilitation	(55,002)	(14,886)	(69,888)
Total	\$(326,043)	\$(347,123)	\$(673,166)*

*The sum of all overcharges and undercharges due to using prior period percentages should be zero. The sum of overcharges and undercharges in the table above is \$57 due to immaterial errors detected in fiscal staff's original calculations, as well as rounding differences in our calculations.

It is important to note that our analyses of the two plans in effect for our audit scope (the new cost allocation plan on April 1, 2017, and the plan for October 1, 2016, through March 31, 2017) are not directly comparable because the plans allocate costs differently. Tables 2 and 3 are stand-alone conclusions. More specifically, the April 1, 2017, plan introduced a variety of changes, such as changes from direct to indirect allocation methodologies, changes to cost allocation bases, eliminating cost pools and merging them with pre-existing ones, and more. Therefore, the factors that caused the differences identified in Tables 2 and 3 are not necessarily identical.⁹

As a result, even though some programs' cumulative differences would be reduced if all three quarters' results were added together, adding the quarters together would not be appropriate as the allocation methodologies were not consistent. Additionally, some programs' cumulative differences would continue to increase if the quarters were added together.

After we performed the comprehensive analysis in December 2017, we learned that the federal government had approved the April 1, 2017, cost allocation plan in which management stated they planned to use prior period percentages. According to the approval letter, dated December 5, 2017,

Approval of the plan/amendment cited above is predicated upon conditions that . . . (4) the approval is based on information provided by the State and is void if the information is later found to be materially incomplete or inaccurate (5) the allocation methods proposed result in an equitable distribution of costs to programs.

As described above, we noted that the Department Controller had informed federal officials that the use of prior period percentages "does not over/under allocate costs to any benefiting program". However, because of the inconsistencies between management's statements and our analysis, we are not able to conclude that fiscal staff adhered to condition 4 referenced above. In addition, based on our audit procedures described above, the allocation methods used by the department did not result in an equitable distribution of costs to programs, which does not comply with condition 5 above. Further, according to decisions by the U.S. Department of Health and Human Services' Departmental Appeals Board, such as decision Number 370, issued in December 1982, the board has repeatedly found that ". . . an approved CAP [Cost Allocation Plan] does not constitute prior

⁹ Although the factors that caused the differences identified in Tables 2 and 3 are not necessarily identical, the October 1, 2016, through March 31, 2017, analysis provides evidence supporting the general conclusion that using prior period information rather than current period information can result in differences that may accumulate and become significant over time, and we identified no evidence to suggest that this general conclusion was not applicable to the April 1, 2017, plan.

approval to deviate from applicable statutes and regulations.” Finally, in our communications with federal officials and our review of correspondence between federal officials and management, the officials consistently communicated that allocating costs based on prior period percentages without subsequent adjustment was not appropriate. Due to all these factors, and given we cannot yet audit management’s intentions to adjust the estimates to actual, we included this matter as an audit finding despite the federal government’s approval of the plan.

We also noted that using prior period information led to fiscal staff allocating approximately \$3.4 million in expenditures that was not based on valid statistical data, which is not in accordance with federal requirements. See finding 2017-011 for more information.

Cause for Condition A

The primary reason fiscal staff moved to allocating costs based on prior period percentages was so that fiscal staff could complete the cost allocation process more quickly after the end of each quarter. The Department Controller noted that the department had prior audit findings related to cost allocations not being adjusted to actual timely in accordance with an agreement between the state and the federal government related to cash management (the Treasury-State Agreement). We noted, however, that management could have pursued other options to improve the timeliness of adjustments, such as amending the agreement to extend the deadline for making cost allocation entries or streamlining fiscal processes for preparing cost allocation schedules. In addition, we noted that the time constraints also appeared to be due to some extent to a lack of sufficient staff. Specifically, only two fiscal staff appeared to be primarily responsible for performing the entire cost allocation process (one person prepared the percentages, and another applied the percentages to costs).

Another contributing factor was the Department Controller’s belief that using prior period percentages would not lead to overcharging or undercharging federal programs if applied consistently over time; however, our testwork did not support this statement.

Condition B. Fiscal Staff Used Prior Period Percentages to Allocate Certain Divisions’ Costs for Part or All of the Audit Period

Condition A above is related to a formal accounting practice established in the department’s cost allocation plan for allocating the entire department’s costs using prior period information beginning April 1, 2017; however, we also identified isolated situations in which fiscal staff used prior period percentages for certain departmental divisions. These issues primarily occurred between July 1, 2016, and March 31, 2017, prior to the new cost allocation plan taking effect. See the table below for additional information.

Table 4
Allocations of Costs Using Prior Period Percentages by Division and Time Period

Divisions	Allocation Basis	Time Period of Costs	Time Period of Percentages Used to Allocate Costs
APS, FA1, FA2, FO, INV*	Random Moment Sampling	July 2016 and August 2016	April 2016 through June 2016
Family Assistance	Various	October 2016 through December 2016	September 2016
Appeals and Hearings	Case Counts	October 2016 through December 2016	September 2016
Office of General Counsel	Workload Hours	July 2016 through June 2017	June 2016 through May 2017

*APS – Adult Protective Services

FA1 – Family Assistance – Field Staff, Management, and Support Staff

FA2 – Family Assistance – Hospital-Based Eligibility Determination Workers

FO – Family Assistance – Field Operations

INV – Investigations

For all divisions identified in the table above except for the Office of General Counsel, we calculated the correct allocation of costs using the correct percentages for the applicable time period and compared our results to fiscal staff's calculations based on prior period percentages. We questioned the differences between our calculations and the amounts allocated by fiscal staff. See Table 5 below for the amount of overcharges and undercharges by program. For the Office of General Counsel, we did not question the costs related to this issue because the data needed to calculate these costs was not readily available in the department's accounting system.

Table 5
Programs Overcharged (Undercharged) Due to
Allocating Costs Based on Prior Period Percentages

Program	Federal Expenditures	State Expenditures	Total Expenditures
Programs Overcharged			
Child Care and Development Block Grant	\$1,590	\$48,791	\$50,381
Child Support Enforcement	5,702	2,937	8,639
Medical Assistance Program	25,232	25,232	50,464
Temporary Assistance for Needy Families	18,662	119,221	137,883
Vocational Rehabilitation	372	101	473
Total	\$51,558	\$196,282	\$247,840
Programs Undercharged			
Social Security Disability Insurance	\$(41)	-	\$(41)
Social Services Block Grant	(31,231)	-	(31,231)
State Administrative Expenses for Child Nutrition	(559)	-	(559)
Summer Food Service Program	(1,165)	-	(1,165)

Supplemental Nutrition Assistance Program	(107,422)	(107,422)	(214,844)
Total	\$(140,418)	\$(107,422)	\$(247,840)

Source: Summarized using accounting records from Edison, the state's accounting system, and the department's cost allocation schedules.

After we brought this matter to the attention of fiscal staff, fiscal staff partially resolved the errors identified in Table 5 above by correcting the cost allocation calculations for two divisions, Family Assistance and Appeals and Hearings, for the October through December 2016 costs that were allocated improperly.

Cause for Condition B

For the Family Assistance and Appeals and Hearings divisions for the period October through December 2016, the errors noted in Table 5 above were due to fiscal staff accidentally failing to replace the prior period cost allocation tables with the current tables when preparing the cost allocation spreadsheets. For the remainder of the divisions and time periods in Table 3 above, when these errors occurred, it does not appear that fiscal staff were aware that the cost allocation tables should not be created using prior period percentages.

Condition C. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that "Costs charged to a federal program are not allowable under program regulations" as having a remote likelihood and small impact; however, management did not identify any mitigating controls related to the issue. Given the unallowable costs and cost principles issues identified in this finding and others during the current audit, such as 2017-015, 2017-033, and 2017-037, we concluded that management should have assessed the likelihood as reasonably possible, assessed the impact as large, and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria for All Conditions

According to *A Guide for State, Local and Indian Tribal Governments – Cost Allocation Principles and Procedures for Developing Cost Allocation Plans* (ASMB C-10), Section 3-23, prior periods' random moment time sampling percentages and other time and effort percentages may not be used to allocate the current period's costs:

Can the results of an acceptable statistical sampling method or time and effort reporting covering one period of time be applied to a different period, e.g., a prior quarter? [Att. B, ¶ 11.h(5)(c)]

No. The results of a specific period represents the values experienced during that period only. Attachment B, paragraph 11.h(5)(c) requires that time and effort reporting coincide with one or more pay periods. Therefore, retroactive application of such results, whether they are statistically based or effort reporting, is unacceptable. However, prior period actuals may be used as estimates for applying

costs in a future period, provided that the estimates are adjusted back to actual effort for that period when claimed for reimbursement.

The guide quoted above has the effect of a regulatory requirement because it represents instructions released by the Department of Health and Human Services, and 45 CFR 95.507(a)(2) requires the cost allocation plan to “Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions.”

Like ASMB C-10, 2 CFR 200.430(i)(5)(i)(C) also requires the results of the state’s random moment sampling method to be applied to the period being sampled.

According to OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments,” Attachment A, Section C.3.a-b, 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, and all activities which benefit from indirect costs will receive an appropriate allocation of indirect costs. These requirements are also stated in 2 CFR 200.405(a-b).

For direct costs, 2 CFR 200.405(d) states that 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.

Effect for All Conditions

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 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 \$516,881 due to the net amount of overcharges to federal programs, consisting of federal questioned costs of \$335,887 and \$180,994 in questioned costs related to state matching funds for federal grant awards. See Table 6 for details regarding all overcharges and undercharges.

Table 6
Total Questioned Costs by Federal Program

Program	Federal Expenditures	State Expenditures	Total Expenditures
Programs Overcharged			
Child Support Enforcement	\$51,463	\$26,511	\$77,974
Medical Assistance Program	69,319	69,319	138,638
State Administrative Expenses for Child Nutrition	6,623	-	6,623
Supplemental Nutrition Assistance Program	85,164	85,164	170,328
Social Security Disability Insurance	123,318	-	123,318
Total	\$335,887	\$180,994	\$516,881
Programs Undercharged			
Child Care and Development Block Grant	\$(5,884)	\$(81,686)	\$(87,570)
Community Services Block Grant	(6,873)	-	(6,873)
Independent Living Services for Older Individuals Who Are Blind	(7,256)	(806)	(8,062)

Summer Food Service Program	(1,164)	-	(1,164)
Social Services Block Grant	(79,715)	-	(79,715)
Temporary Assistance for Needy Families	(182,292)	(81,733)	(264,025)
Vocational Rehabilitation	(54,630)	(14,785)	(69,415)
Total	\$(337,814)	\$(179,010)	\$(516,824)

Concerning questioned costs, 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.

In addition, 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. This finding, in conjunction with findings 2017-12, 2017-014, and 2017-015, results in total known federal questioned costs exceeding \$25,000 for a federal program which is not audited as 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 of the Department of Finance and Administration (the Commissioner) should ensure that proposed revisions to cost allocation plans are supported by comprehensive estimated cost analyses that span multiple time periods, and should establish adequate internal controls to ensure that communications to federal officials regarding the impact of proposed changes are supported by these impact analyses. These controls should include ensuring that the communications are documented and distributed to the relevant fiscal staff.

In order to allow fiscal staff to complete cost allocation entries timely without using prior period information, the Department Controller, in consultation with appropriate officials within the Department of Finance and Administration, should consider alternatives for ensuring that cost allocation entries are performed more quickly, such as

- updating the Treasury-State Agreement with the U.S. Department of Treasury to extend the amount of time fiscal staff have to perform cost allocation entries;
- hiring or reassigning additional staff to assist in the cost allocation process; and

- discussing with Comptroller's Office staff potential automation solutions for cost allocation processes using the department's existing spreadsheet tools, including strategies for automatically detecting when fiscal staff have accidentally allocated costs based on prior period percentages.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

Condition A. Fiscal Staff Allocated All Departmental Costs Using Prior Period Percentages for Three Months

The department does not concur. A cost allocation plan is a narrative of the procedures that the department will use in identifying, measuring, and allocating all department costs incurred in support of all programs administered or supervised by the department. The plan utilizing the methodology described in condition A was approved by Cost Allocation Services within the U.S. Department of Health and Human Services even after being contacted by the state auditor who voiced concerns with the approach.

In addition, management discussed the concept of using prior quarter percentages extensively with its federal partners while its April 1, 2017 effective public assistance cost allocation plan (PACAP) was being developed and reviewed for approval. This discussion resulted in valuable clarifications and understandings for all participants, and ultimately resulted in the following support for this approach being received from the Lead Grants Management Specialist, HHS/ACF/OA – Office of Grants Management:

ACF does not have issues with application of prior quarter statistics as long as appropriate quarter adjustments after subsequent analysis is completed. In our discussions, your intent to adhere to these guidelines is clear and subsequent PACAP submissions have been augmented to clarify this understanding.

The department clearly documented in its subsequent July 1st cost allocation plan submission that it would periodically evaluate the differences between allocation approaches and make adjustments for any material variations.

Management does not believe the tables presented in this finding provide sufficient evidence that the allocation methods utilized by the department will not result in an equitable distribution of costs to programs. While table 2 and 3 do present three quarters of data, as noted in the finding, they are not comparable, so they provide little value in establishing whether or not allocations using the federally approved technique over an extended period are equitable.

Finally it is important to note, that as stated in the finding, management communicated to the state auditor that the primary reason behind the approach taken in the PACAP was to address other findings related to cost allocation timeliness. Management agrees that there are alternative approaches to addressing the timeliness issue, but does not believe that one is measurably preferable over another.

Condition B. Fiscal Staff Used Prior Period Percentages to Allocate Certain Divisions' Costs for Part or All of the Audit Period

The department concurs that the cost allocation plan in place did not adequately represent all departmental practices which is why the plan was amended effective April 1, 2017. Due to the time delay associated with compiling results from the Random Moment Sample (RMS), prior quarter RMS results were used in some instances so as not to delay the cost allocation process. This is another contributing factor to why the plan was amended as described in condition A.

As noted in the finding, cost allocations for Family Assistance and Appeals and Hearings were corrected. Costs for the Office of General Counsel were allocated in accordance with the approved cost allocation plan in place at the time.

Condition C. Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance risks, were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A. Fiscal Staff Allocated All Departmental Costs Using Prior Period Percentages for Three Months

We are not aware of any relevant federal requirements that permit fiscal management to determine the materiality of overcharges to federal grants. We also have specific federal requirements which require us to report questioned costs when those costs exceed the federal reporting thresholds. As such we have reported the \$516,881 in overcharges to federal programs for the quarter ended June 30, 2017, based on our requirement to do so.

It is also not clear that federal officials responsible for approving the plan were aware that fiscal management intends to only address variations deemed significant, instead of "truing up" all variations to actual. Specifically, the July 1st plan states, "Prior quarter adjustments will be made on Federal reports when appropriate." Based on discussion with fiscal management, "when appropriate" means when management concludes variations are material, but this was not explained in the plan or any other communication we reviewed. Without this clarity, there may be differing opinions between management, the federal partners, and the state auditors regarding materiality of variations.

As of March 2018, there was no indication that fiscal management had performed the periodic review described in management's comment for the quarter ended June 30, 2017, and fiscal management had not informed us of when this will occur. The cost principles identified in this finding do not authorize temporary noncompliance, and the state's Treasury-State agreement required cost allocations to be adjusted to actual quarterly. Further, the CAS official we spoke to indicated that allocations should be adjusted to actual each fiscal year, at least. As a result, we are required to report this issue until fiscal management has implemented a process that ultimately corrects these cost allocations. We look forward to working with management and the federal partners in the future to achieve an appropriate resolution to this matter.

Finding Number	2017-011
CFDA Number	10.558, 10.559, 10.561, 84.126, 93.558, 93.563, 93.596, and 93.778
Program Name	Child and Adult Care Food Program Child Nutrition Cluster 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
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services
State Agency	Department of Human Services
Federal Award Identification Number	201717N109945, 201717IQ390345, 8044 H126A170063, G1702TNTANF, 1704TNCSES, G1701TNCCDF, 05-1705TN5ADM
Federal Award Year	2017
Finding Type	Significant Deficiency (10.558, 10.559, 10.561, 84.126, 93.563, 93.596, and 93.778) Material Weakness (93.558) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Fiscal staff for the Department of Human Services used incomplete, inaccurate information to create cost allocation tables

Background

Because the Department of Human Services administers various public assistance programs, federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by the department. Fiscal staff within the Department of Finance and Administration create and submit the cost allocation plan on behalf of the Department of Human Services, as well as allocate costs to federal grant awards in accordance with the cost allocation plan.

In accordance with federal regulations, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the cost allocation plan. During the audit period, July 1, 2016, through June 30, 2017, two cost allocation plans were effective for the department. The first plan was effective July 1, 2016, through March 31, 2017. The second was effective April 1, 2017. A total of \$381,213,289 of the department's expenditures during our audit period was subject to allocation under the cost allocation plan. (Federal regulations exclude from cost allocation plans expenditures for financial assistance,

medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.)

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.

Each quarter, fiscal staff prepare 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 the federal programs administered by the department.

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

Summary of Conditions

Based on testwork performed, we found that the Department Controller did not ensure that fiscal staff adhered to acceptable statistical sampling methods and that fiscal staff allocated costs in accordance with the cost allocation plan and federal requirements. Specifically, we noted that

- the Family Assistance Random Moment Sampling universe did not contain all required staff (see Condition A), and
- fiscal staff did not calculate allocation percentages correctly for costs that benefitted the entire department (see Condition B).

Condition A – The Family Assistance Random Moment Sampling Universe Did Not Contain All Required Staff

Random Moment Sampling

During the audit period, July 1, 2016, through June 30, 2017, fiscal staff for the Department of Human Services allocated approximately \$109.9 million in administrative costs to various federal and state funding sources using random moment sampling. According to the *Division of Cost Allocation Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans*, random moment sampling (RMS) is

. . . a work sampling technique for statistically determining the amount of effort spent by a group of employees on various activities. A RMS study consists of a number of individual observations of employee activities taken at randomly selected points in time. Based on these observations, the total effort of a group of employees can be estimated with a measurable degree of confidence and precision

that the results approximate those had the employees been observed 100% of the time.

According to the *Cost Allocation Plan for the TN Department of Human Services*, RMS is used to identify employee efforts directly related to specific programs and activities and to identify employee effort which is common to more than one program for subsequent distribution of costs to individual programs. Fiscal staff¹⁰ for the Department of Human Services used RMS to allocate costs to four benefitting organizational units during the audit period: Investigations (INV), Adult Protective Services (APS), Field Operations (FO), and Family Assistance (FA).

The State RMS Administrator uploads a list of employees (the sample population universe) into an electronic RMS system. The RMS system randomly selects sample occurrences and employees from the sample population universe. The selected individual uses the RMS system to complete a survey identifying the activities the employee was working on at the sampled moment in time. Per the cost allocation plan, each workday is broken down into one-minute intervals yielding 315 possible strike points per standard workday. The RMS System monitors the number of valid samples received for each survey on a daily basis and adds additional samples during the sample period (each calendar quarter) to meet the required number of valid samples for each organizational unit.

According to Title 2, *Code of Federal Regulations* (CFR), Section 200.430(i)(5)(i) and OMB A-87, Attachment B, Section h(6)(a), the RMS methodology must generally meet acceptable statistical sampling standards including

- A. the sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results . . .;
- B. the entire time period involved must be covered by the sample; and
- C. the results must be statistically valid and applied to the period being sampled.

During the audit period, of the \$109.9 million in administrative costs that fiscal staff allocated using RMS, \$85.2 million was based on the RMS results for the Family Assistance division, which is the largest division of the department. Family Assistance staff perform tasks such as eligibility determination for the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, Child Care and Development Fund, and the Medical Assistance Program (Medicaid).

Fiscal staff used the RMS results for January through March 2017 to allocate costs incurred during January through March 2017, as required by federal regulations. In addition, however, fiscal staff used the same January through March 2017 RMS results to allocate costs for the quarter April through June 2017, which is not in accordance with federal requirements (see Finding 2017-010). Because the Family Assistance division is the largest division and the RMS results for January through March 2017 were used to allocate half of the audit period's costs for the division, we tested

¹⁰ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including implementation of the cost allocation plan. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

fiscal staff's RMS sampling procedures for the quarter January 1, 2017, through March 31, 2017, to determine whether the RMS universe of employees for the Family Assistance division was complete and accurate.

Audit Procedures for Family Assistance RMS Results

For each of the six, bi-monthly pay periods during January 1, 2017, through March 31, 2017, we reviewed the employees included in the Family Assistance RMS universe, and compared them to the Family Assistance unit's Edison payroll data¹¹ for January 1, 2017, through March 31, 2017. For the purpose of determining whether the RMS universe was complete, if an employee was excluded from the RMS universe but their payroll records indicated that they were on leave for the entire pay period, we considered the exclusion to be appropriate and did not note any error.

Based on our procedures, we concluded that the Department Controller did not ensure that the Family Assistance RMS methodology followed acceptable statistical methods, because fiscal staff improperly excluded 308 of the 1052 employees who should have been included in the RMS universe (29%) for the quarter ended March 31, 2017. See Table A below for details related to the employees that were excluded from the RMS universe.

Table A
Reasons for Excluding Employees from the Family Assistance
RMS Universe for the Quarter Ended March 31, 2017

Descriptions	Number of Employees
New Worker Training	159
Eligibility Assistants	80
Leave, Resigned, or Retired*	48
Not Working in Normal Office location	5
Assigned to Special Family Assistance Projects	4
Multiple**	12
Total Employees	308

*These employees had regular time worked in Edison, the state's accounting system, during the pay period(s) during which they were excluded from the RMS universe.

**These employees had multiple reasons for exclusions during the quarter. For example, for one month, the employee may have been excluded due to New Worker Training, and the next month excluded due to leave.

In addition to these 308 Family Assistance employees, we noted that for the quarter ended June 30, 2017, fiscal staff improperly excluded 260 employees from the RMS universe because they erroneously used the prior periods' RMS results to allocate current quarter costs.

¹¹ Edison is the State's accounting system. Each pay period, employees have their payroll costs charged to organizational units called department IDs. For this testwork, we reviewed payroll data for department IDs that were designated to have their costs allocated using the Family Assistance RMS system.

In both cases, we noted that these individuals were excluded from the RMS universe because fiscal staff had not established adequate controls for ensuring that exclusions from the RMS universe were appropriate and accounted for properly. Additional details related to the exclusions are provided below.

New Worker Training

For the 159 employees assigned to new worker training, the cost allocation plan did not provide for excluding these employees, and we noted that the RMS process was not designed to ensure that employees were included in the RMS universe as soon as the employees' training was completed. Specifically, the RMS universe is updated every two weeks (every other Friday), so any individual excluded from the universe is excluded for two weeks, even if the employee's new worker training ends the first week of the two-week period. As a result, any time an employee spends working on programmatic activities after new worker training ends and before the end of the two-week sampling period (which occurs every other Friday) is improperly excluded from the RMS universe.

Based on discussion with Family Assistance staff, new worker training is not scheduled to coincide with the two-week RMS sampling periods and could end on any day of the week; therefore, each individual completing new worker training could be improperly excluded from the RMS universe for up to two weeks.

Since excluding these staff was not approved in the plan, and there was no evidence to suggest the employees were in new worker training for the entire sampling periods, we concluded that it was not appropriate to exclude these individuals.

Eligibility Assistants

For the 80 eligibility assistants excluded from the RMS universe, we noted that the job description¹² for these employees and our discussions with fiscal staff suggested that these employees interacted directly with clients, worked directly on applications, and performed eligibility determinations. According to the *Division of Cost Allocation Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans* (Best Practices Manual), Section VI., Part C(4), employees who work directly on cases should normally be included in the universe, or the matter should be explained in the cost allocation plan. In addition, the cost allocation plan did not provide for excluding these employees and stated that all employees performing functions within the organizational unit would be included in the RMS universe.

Per 2 CFR 200.430(i)(5)(ii), the state is permitted to exclude support staff from the RMS universe and instead allocate support staff's costs based on the sampled employees' RMS results. Nevertheless, we included this condition in this finding because "support staff" is not defined in

¹² According to the job description, eligibility assistants' activities include asking applicants questions needed to obtain information related to their eligibility status to determine proper benefit eligibility, documenting information obtained during client interviews into the eligibility determination system, obtaining information from various databases and other needed sources to assist Eligibility Counselors in eligibility determination, and comparing client information to eligibility criteria. The position differs from Eligibility Counselor 1 in that "Eligibility Counselors perform work of greater scope and complexity to determine needed social services and eligibility for these services."

the regulations and the Best Practices Manual suggests that federal officials may not conclude that individuals working directly on client cases and determining client eligibility are support staff.

Leave, Resigned, or Retired

For the 48 employees that fiscal staff indicated were on leave, had resigned, or had retired, we noted that the payroll records demonstrated that these individuals were working on Family Assistance activities during the applicable sampling period, and they were not actually on leave or out of the office due to resignation or retirement during the entire sampling period. For example, for the pay period January 16, 2017, through January 31, 2017, there were eight individuals excluded from the universe due to being in the “FMLA” (Family and Medical Leave Act) category. Of these eight individuals, we noted that five of them took no leave during the period, and the remaining three took some leave, but they also worked during the period. Since these individuals were working on Family Assistance activities during the period and their costs were allocated based on the Family Assistance RMS results, federal regulations require fiscal staff to include the employees in the RMS universe.

We noted that this matter occurred primarily due to inadequate processes for determining when employees should be excluded due to absences. Specifically, based on discussion with fiscal staff, fiscal staff excluded individuals from the universe due to leave when Human Resources staff indicated that the individuals were *approved* to take extended leave, not necessarily when fiscal staff performed procedures to determine that the employees were not in the office. As a result, we noted many instances in which employees worked for the entire period, but fiscal staff excluded the employees from the RMS universe.

Not Working in Normal Office Location

For five employees, fiscal staff indicated that the employees were working in the community and would not have been able to access the RMS website to complete the survey in time, so fiscal staff excluded the employees. In order for the RMS results to be statistically valid, these individuals were required to be included in the RMS universe, even if they were working remotely. Although fiscal staff’s practice was to allocate these individuals’ personnel costs based on the RMS results, fiscal staff did not establish a mechanism for obtaining these individuals’ survey responses, such as using a mobile device, in the event the employees were randomly selected.

Assigned to Special Family Assistance Projects

For the four employees working on special Family Assistance projects, the employees were working on Family Assistance activities and their costs were allocated using Family Assistance RMS results; therefore, the employees should have been included in the universe. Fiscal staff’s documentation indicated that these individuals were excluded because they had no caseloads; however, we noted that the Family Assistance RMS survey had specific options for employees to select if they were working on program activities that were not case specific. In addition, if the special projects were not program specific, the RMS survey also had an option for the employee to indicate that they were working on non-program related tasks. Since these individuals could have used the RMS survey to document their work activities, it is not clear why fiscal staff excluded these individuals.

260 employees were excluded from the RMS universe for the quarter ended June 30, 2017

Beginning April 1, 2017, fiscal staff began allocating all current quarter costs based on the previous quarter's information, which is not in accordance with federal cost principles requirements. This practice resulted in not including all required employees in the Family Assistance RMS universe. Specifically, beginning April 1, 2017, the Field Operations division was blended with the Family Assistance division. Because fiscal staff used the Family Assistance RMS results for the prior quarter, January 1, 2017, through March 31, 2017, to allocate the costs for the quarter April 1, 2017, through June 30, 2017, and the Field Operations staff were excluded from the Family Assistance RMS universe during the prior quarter, none of the 260 Field Operations staff were represented in the RMS universe used to allocate their costs. As a result, for the quarter ended June 30, 2017, fiscal staff allocated approximately \$3.4 million in expenditures associated with the Field Operations employees based on invalid statistical data. For more information regarding noncompliance associated with using prior period data to allocate current period costs, see Finding 2017-010.

Condition B – Fiscal Staff Did Not Calculate Allocation Percentages Correctly for Costs that Benefitted the Entire Department

Table 1

Per the cost allocation plan, fiscal staff created Table 1 to allocate costs associated with departmental activities that benefit all programs administered by the department, such as costs associated with the Commissioner's Office. During the audit period, fiscal staff used Table 1 to allocate \$43,841,431 in administrative costs to various funding sources.

Table 1 was created using the position count allocation basis. Fiscal staff calculate the average number of filled full and part time positions for each program during a quarter, then use these averages to calculate a percentage for each program based on the proportion of the department's entire workforce for each program. Fiscal staff use staffing assignment data to determine the number of filled full and part time positions for each program.

We tested fiscal staff's Table 1 calculations for the quarter ended March 31, 2017, to determine whether the table was prepared accurately based on employees' working assignments and the cost allocation plan.

Relationship Between Family Assistance RMS Results and Table 1

It is important to note that since Table 1 was created using the staffing assignments of all department employees, and given that employees within the Family Assistance division represent the largest group of employees within the department, the Family Assistance RMS results have a significant impact on Table 1. For example, of the 3,318 department employees included in the data used to create Table 1 for the period January 1, 2017, through March 31, 2017, 1,686 of them (51%) were Family Assistance employees whose personnel costs were allocated via Family Assistance RMS results. Since 51% of the information used to create Table 1 for the quarter was based on Family Assistance RMS information, any inaccuracies in the RMS results could invalidate over half of the Table 1 calculations as well.

Continuing with the example above, if the RMS results showed that 20% of Family Assistance staff's time for the quarter was spent working on Temporary Assistance for Needy Families, for example, fiscal staff would add 337.2 people (1,686 X 20%) to the total number of department employees working on Temporary Assistance for Needy Families during the quarter. In order to ensure costs are allocated via Table 1 based on the proportional benefits that programs receive, these pro-rata calculations should generally occur for all employees whose activities benefit multiple programs.

Due to the significant amount of costs that are allocated through both Table 1 and the Family Assistance Tables, and the relationship between the two, it is critical that fiscal staff maintain adequate controls over the data and processes used to prepare the RMS and Table 1 calculations.

Audit Procedures for Table 1

Based on our review, we determined that the Department Controller did not ensure that fiscal staff prepared Table 1 properly. We noted several deficiencies in the accounting procedures fiscal staff used to calculate Table 1 including the following:

- fiscal staff did not reconcile employees' assignments per the staffing assignment data used to create Table 1 with employees' assignments per payroll data to ensure the table was prepared using accurate information;
- fiscal staff did not prepare Table 1 to properly reflect the effect of temporary staff assignments;
- fiscal staff did not update Table 1 to reflect key changes in the cost allocation methodologies used in the amended cost allocation plan, effective April 1, 2017; and
- fiscal staff improperly excluded employees working in divisions of the department and did not always calculate position counts correctly for included divisions.

Fiscal Staff Did Not Reconcile Key Data Sources

We noted that fiscal staff created Table 1 based on employee roster information, rather than developing the table based on the division to which the employees' payroll costs were charged. According to fiscal staff, reconciliation procedures were not performed to ensure that each employee's payroll costs were charged to the divisions that match their employee roster information. Based on our review of both the roster information and the payroll information for the quarter ended March 31, 2017, we noted that for 70 employees, the programs the employees worked on per the roster information did not agree with the programs the employees worked on per their payroll information. This is a critical control deficiency, as differences between the payroll data and the employee roster information mean that either Table 1 was created incorrectly based on erroneous employee roster information or that employee payroll costs were charged incorrectly to federal programs because employees were working in one division but their payroll costs were charged to another division, or both. We were unable to determine which of these scenarios applied to these individuals. See Finding 2017-015, Condition A, Testwork for payroll costs charged to the incorrect department ID, for more information.

Fiscal staff did not prepare Table 1 to properly reflect the effect of employees placed on temporary work assignments

For the quarter January 1, 2017, through March 31, 2017, fiscal staff's records indicated that there were 107 employees working on temporary assignments. The time that employees spend working on temporary assignments is generally tracked using timesheets. When preparing table 1, fiscal staff assumed that the employees spent 100% of their time working in their normal staff assignments instead of determining the actual time spent working on the temporary assignments so that fiscal staff could include an accurate number of employees in the position count calculation for the temporary assignment.

Fiscal staff did not update Table 1 to reflect key changes

We also noted that the fiscal staff did not update Table 1 to reflect key changes in the cost allocation methodologies used in the amended cost allocation plan, effective April 1, 2017, for 54 employees. When calculating the total number of filled positions for the Child Support Enforcement program (CSE), for example, fiscal staff included six employees working in the Information Technology division on Child Support activities, even though the Information Technology employees' payroll costs were already allocated to all federal programs via Table 1.¹³ This accounting treatment is not consistent with federal cost principles.¹⁴

Fiscal staff improperly excluded employees working in divisions of the department and did not always calculate position counts correctly for included divisions

As discussed in the Background section, when calculating the number of Family Assistance staff to include in Table 1 for each program, fiscal staff multiply the total Family Assistance staff count by each federal program's RMS results percentage to calculate each program's pro rata share of Family Assistance staff positions. We noted, however, that fiscal staff did not perform these pro rata calculations for 63 staff working in the Investigations Division and 14 staff working in the Office of General Counsel Field Staff Division; therefore, these 77 staff were excluded from the Table 1 calculations. In other cases, staff working on multiple programs were included in Table 1, but fiscal staff included the employees in the incorrect program count or calculated the pro rata share using the incorrect cost allocation table.

Recalculation of Table 1

For April 1, 2017, through June 30, 2017, to obtain an understanding of the potential impact these errors had on the quarter, we recalculated Table 1 based on the updated methodologies in the amended cost allocation plan, and included the appropriate department employees in our calculations. We calculated the pro rata share of position counts for all of the employees using the

¹³ The costs were allocated to all programs because the amended cost allocation plan provided for temporarily allocating costs for four divisions using Table 1 until fiscal staff could determine a more appropriate allocation method.

¹⁴ If fiscal staff have evidence that the employee's activities for the quarter benefitted only one federal program, such as CSE (and thus fiscal staff should include the employee in the CSE position count), federal regulations would prohibit allocating the payroll costs as indirect costs to all programs for that quarter. Conversely, if fiscal staff determined that the employee's activities benefitted all programs (and thus fiscal staff allocated the costs to all programs via Table 1), including the employee in the CSE position count would be inappropriate, as the employee's activities did not benefit only CSE.

applicable cost allocation methodology. In order to obtain an understanding of the difference between preparing the table based on staffing data, which was fiscal staff's practice, and preparing it based on payroll data, we based our calculations on payroll data and assumed the employees worked in the same division to which their payroll costs were charged.

After preparing our version of Table 1 for the quarter, we allocated the quarter's costs to programs using our table and compared our allocation amounts to the amounts fiscal staff allocated for the quarter. See Table B below for the differences in the allocated amounts for each program and Table C below for the differences in the position counts calculated for each program.

Table B

**Potential Overcharges (Undercharges) By Program Due to Calculating Table 1 Incorrectly
for the Period April 1, 2017, through June 30, 2017**

Program	Federal Expenditures	State Expenditures	Total Expenditures
Programs Overcharged			
Child Care and Development Block Grant	\$ -	\$13,175	\$13,175
Child Support Enforcement	36,110	18,602	54,712
Community Services Block Grant	85	-	85
Medical Assistance Program	12,725	12,725	25,450
Social Security Disability Insurance	29,958	-	29,958
Vocational Rehabilitation	107,860	31,022	138,882
Total	\$186,738	\$75,524	\$262,262
Programs Undercharged			
Independent Living Services for Older Individuals Who Are Blind	\$(38,717)	\$(4,302)	\$(43,019)
State Administrative Expenses for Child Nutrition	(6,677)	-	(6,677)
Supplemental Nutrition Assistance Program	(59,563)	(59,563)	(119,126)
Social Services Block Grant	(70,900)	-	(70,900)
Temporary Assistance for Needy Families	(11,270)	(11,270)	(22,540)
Total	\$(187,127)	\$(75,135)	\$(262,262)

Table C

**Differences in Table 1 Employee Counts by Activity
for the Period April 1, 2017, through June 30, 2017**

Activity	Difference
Employees Overcounted	
Appeals and Hearings	1
Child Support Enforcement	6
Medical Assistance Program	3
Vocational Rehabilitation	15
Total	25*
Employees Undercounted	
Adult Protective Services	(2)
Assistive Technology	(1)
Child Care and Development Block Grant	(1)
Independent Living Services for Older Individuals Who Are Blind	(6)
Social Services Block Grant	(9)
State Administrative Expenses for Child Nutrition	(1)
Supplemental Nutrition Assistance Program	(35)
Temporary Assistance for Needy Families	(6)
Total	(61)*

*Note: The amounts of over- and undercounted areas do not net to zero due to fiscal staff not including as many employees in their calculations as we did in ours.

As noted previously, fiscal staff use Family Assistance RMS data to prepare Table 1; therefore, any errors included in the RMS results (such as the matters discussed in Condition A above) are reflected in Table 1 as well.

Given the nature and scope of the errors related to the Family Assistance RMS and Table 1 calculations, and the fact that we did not always have sufficient information to perform accurate recalculations (such as accurate data identifying employees' activities), we did not attempt to calculate questioned costs related to the noncompliance noted in this finding.

Condition C – Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that "Costs charged to a federal program are not allowable under program regulations" as having a remote likelihood and small impact; however, management did not identify any mitigating controls related to the issue. Given the unallowable costs and cost principles issues identified in this finding and others during the current audit, such as 2017-015, 2017-033, and 2017-037, we concluded that management should have assessed the likelihood as

reasonably possible, assessed the impact as large, and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 430(i)(5)(i) and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," Attachment B, Section 8(h)(6)(a), state that substitute systems which use sampling methods must meet acceptable statistical sampling standards including:

- (A) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results . . . [except that less than full compliance with the statistical sampling standards may be accepted by the cognizant agency if the cognizant agency makes certain determinations];
- (B) The entire time period involved must be covered by the sample; and
- (C) The results must be statistically valid and applied to the period being sampled.

According to the department's cost allocation plan, "The universe for the [RMS] surveys will be comprised of all employees performing functions within each organizational unit."

Per 45 CFR 95.517(a), "A State must claim FFP [federal financial participation] for costs associated with a program only in accordance with its approved cost allocation plan." 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 *Division of Cost Allocation Best Practices Manual for Reviewing Public Assistance Cost Allocation Plans*, Section VI., Part C(4), states:

The sample universe should normally include all workers with direct client contact (direct workers). The PA plan should clearly identify and explain why any direct workers are excluded from the sample universe.

Cause

Based on discussion with fiscal staff, fiscal staff excluded individuals from the RMS universe that were potentially on leave, resigned, or retired because fiscal staff believed that including these individuals would invalidate the results of the sample. We did not identify any evidence that supported that including these individuals in the RMS universe would result in invalidating the statistical results, and the federal regulations required the individuals to be included.

Regarding improper calculations for Table 1, based on discussion with fiscal staff, fiscal staff was not aware that employee assignments per payroll data did not agree with employee assignments per roster information. In addition, for the Table 1 calculations for the quarter ended June 30, 2017, fiscal staff did not appear to consider the impact that a revision in the cost allocation plan would have on the cost allocation tables prepared for the prior quarter.

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 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 Controller should ensure that the Department of Human Services' Random Moment Sampling universe includes all applicable moments for all direct worker employees in the universe whose salaries and wages are to be allocated based on the sample results. In addition, the Department Controller should establish processes to ensure that Table 1 calculations are accurate and that the calculations

- properly reflect the effect of temporary assignments;
- are updated to reflect changes in cost allocation methodologies, as needed;
- include all employees working in the department (except those whose personnel costs are allocated via Table 1); and
- include all necessary pro-rata calculations.

Finally, the Department Controller should ensure that fiscal staff and management establish adequate internal controls to resolve all errors noted above, including a comprehensive reconciliation process for payroll data and staffing assignment data.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

Condition A. The Family Assistance Random Moment Sampling Universe Did Not Contain All Required Staff

We do not concur.

Management is concerned that the interpretation of the regulations throughout this condition may be more rigid than intended, and that the cost of implementing a corrective action plan that satisfies this rigid interpretation will far exceed the benefits to be achieved by such a plan. The underlying premise behind the entire sampling process is that costs are difficult to assign to any one benefitting program; therefore, another means of assigning cost was developed. The auditor's interpretation of the regulations as it pertains to inclusion in the sampling universe is so precise that it mirrors procedures that would be performed were the employees completing timesheets that charged costs directly to the benefitting federal program. The finding cites Title 2, *Code of Federal Regulations* (CFR), Section 200.430. This section of the guidance also includes additional information on

standards for personnel charges which state that charges to federal awards for salaries must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated (emphasis provided). The charges must also comply with established accounting policies and practices of the department. To that end, we believe our current process for RMS inclusion or exclusion is reasonable and is consistent with the Federal established practices of the department. Additionally, the same section of the Federal guidance states, “Less than full compliance with the statistical sampling standards noted in subsection (5)(i) may be accepted by the cognizant agency for indirect costs if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the non-Federal entity will result in lower costs to Federal awards than a system which complies with the standards.” Management maintains that the methodologies being utilized by management result in a lower cost to the federal awards than processes that would need to be put in place to address the identified concerns.

In regard to the specific items noted in the findings,

New Worker Training

As indicated in the finding, the RMS universe was updated every two weeks during the audit period. Management believes that a twice a month control is reasonable given the nature of the costs being incurred and the additional costs associated with the auditor’s suggestion of revising this to a daily control. It is also reasonable to assume that an employee who just completed training (even if it was in week 1 of a 2 week period) would rely on a seasoned employee to continue providing guidance; thus, the new employee’s costs would mirror the time charged by the employee that was already included in the RMS universe.

Eligibility Assistants

Eligibility assistants are excluded from the RMS universe in accordance with 2 CFR 200.430(i)(5)(ii). The department is permitted to exclude support staff. As indicated in footnote 12, Eligibility assistants “... assist Eligibility Counselors in eligibility determination...” The assistants are not authorized to make eligibility determinations for the program.

Other Categories

The aggregate total of employees noted for the other categories approximates 2% of the RMS universe. Management does not consider their exclusion to have a material effect on the completeness of the universe; however, management will explore cost effective means to include them if possible.

260 employees excluded from the RMS Universe for the quarter ended June 30, 2017

The auditors were provided evidence documenting the fact that the methodology is in accordance with an approved Public Assistance Cost Allocation Plan, and that a clear intention to make appropriate quarter adjustments after subsequent analysis is completed had been discussed with and understood and accepted by federal partners. Please reference management’s response to finding 2017-010.

Condition B. Fiscal Staff Did Not Calculate Allocation Percentages Correctly for Costs that Benefitted the Entire Department

We concur in part.

Fiscal staff did not reconcile key data sources

Staffing pattern data and payroll queries were not reconciled. Employees were counted based on how they appeared on the system generated staffing pattern. A reconciliation process will be developed by June 30, 2018.

Fiscal staff did not prepare Table 1 to properly reflect the effect of employees placed on temporary work assignments.

The primary program assignment was used to determine the count for people working on temporary assignments and was not split proportionally between the timesheet data relating to time spent on the temporary assignment and their primary assignment. 2 CFR 200 indicates that short term fluctuations between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term. While this specific reference is for budget estimates, it appears to support the federal government's acceptance of an approach that, while not exact, is operationally efficient as long as the result is reasonable.

Remaining conditions

The 6 employees mentioned in the audit findings were counted as dedicated child support employees in Table 1 based on the prior quarter statistics that were used to allocate current quarter costs according to the approved April 1, 2017 cost allocation plan. Counts related to the investigations unit and the offices of general counsel were improperly excluded from Table 1. They will be included going forward based on the proportional benefit to programs based on the tables developed and their related statistics.

Condition C. Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A – The Family Assistance Random Moment Sampling Universe Did Not Contain All Required Staff

Management did not address the insufficiency of their sampling universe, which is the basis for Condition A. Management's concerns involve the costs of addressing this condition; however, most of the issues in Condition A are the result of fiscal staff performing work that we believe is

not necessary and actually leads to noncompliance with RMS requirements. Specifically, the department's RMS system automatically selects additional individuals for sampling if an individual does not respond timely; therefore, there is no need for fiscal staff to spend time maintaining deactivated listings and removing employees from the universe due to leave, new worker training, and similar issues.

We contacted management, explained why we believed compliance would actually be less costly, and asked why management believes the changes would be costly; however, management would not provide an explanation and simply stated, "Yes, we believe that our response reflects the way we think about that."

New Worker Training

Regarding management's biweekly process for updating the RMS universe, management refers to "the auditor's suggestion of revising this to a daily control." We are not suggesting that the department perform this process daily and have made no recommendation related to the frequency of the RMS universe update. On the contrary, we believe the department should simply use its RMS system as designed and not exclude these employees from the RMS universe.

Other Categories

Regarding management's determination that "The aggregate total of employees noted for the other categories approximates 2% of the RMS universe," management appears to have omitted the Leave, Resigned, or Retired category from management's calculations. After adding this category, the aggregate total of employees for the categories other than New Worker Training and Eligibility Assistants is roughly 6.6% of the RMS universe.

Finding Number	2017-012
CFDA Number	10.559, 10.560, 10.561, 84.126, 84.177, 93.558, 93.563, 93.569, 93.667, 93.778, and 96.001
Program Name	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 Temporary Assistance for Needy Families Cluster Child Support Enforcement Community Services Block Grant 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	201717N109945, 201616N253345, 201717N253345, 201616IS251445, 201717IS251445, 8044 H126A160063, 8044 H126A170063, H177B160064, H177B170064, G1502TNTANF, G1602TNTANF, 1604TNCSES, 1704TNCSES, G16B1TNCOSR, G1501TNSOSR, G1601TNSOSR, 05-1605TN5ADM, 05-1705TN5ADM, 8826 04-16-04TNDI00, and 8826 04-17-04TNDI00
Federal Award Year	2015 through 2017
Finding Type	Significant Deficiency (10.559, 10.561, 84.126, 93.558, 93.563, and 93.778) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award Identification Number	Amount
CFDA		
10.559	201717N109945	\$27
10.560	201616N253345	\$1
10.560	201717N253345	\$2,262
10.561	201616IS251445	\$1
10.561	201717IS251445	\$183,668
84.126	8044 H126A160063	\$1
84.126	8044 H126A170063	\$72,854
84.177	H177B160064	\$1
84.177	H177B170064	\$5,603
93.558	G1502TNTANF	\$31,480

93.558	G1602TNTANF	\$1
93.563	1604TNCSES	\$1
93.563	1704TNCSES	\$17,247
93.569	G16B1TNCOSR	\$251
93.667	G1501TNSOSR	\$1
93.667	G1601TNSOSR	\$28,878
93.778	05-1605TN5ADM	\$1
93.778	05-1705TN5ADM	\$6,004
96.001	8826 04-16-04TNDI00	\$1
96.001	8826 04-17-04TNDI00	\$87,165

Fiscal staff within the Department of Human Services charged unallowable costs to federal programs during the cost allocation process, including charging costs disallowed by a federal grantor back to federal grant awards, resulting in known federal and state questioned costs of \$435,448, and \$308,152, respectively

Background

Because the Department of Human Services administers various public assistance programs, federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by the department. Fiscal staff within the Department of Finance and Administration create and submit the cost allocation plan on behalf of the Department of Human Services, as well as allocate costs to federal grant awards in accordance with the cost allocation plan.

In accordance with federal regulations, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the cost allocation plan. During the audit period, July 1, 2016, through June 30, 2017, two cost allocation plans were effective for the department. The first plan was effective July 1, 2016, through March 31, 2017. The second was effective April 1, 2017. A total of \$381,213,289 of the department's expenditures during our audit period was subject to allocation under the cost allocation plan. (Federal regulations exclude from cost allocation plans expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.)

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.

Each quarter, fiscal staff prepare 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 the federal programs administered by the department.

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

Cost Pools

Fiscal staff¹⁵ allocate expenditures included in cost pools to various federal programs. A cost pool is essentially a group of expenditures that fiscal staff allocate to various state and federal programs using a specific allocation methodology during the cost allocation process. To ensure that no unallowable costs are allocated to federal programs during the cost allocation process, all unallowable costs must be removed from cost pools prior to allocating the costs to federal awards.

Audit Procedures

To determine whether expenditures included in cost pools were allowable, we performed a cursory review of expenditures that were included in cost pools and subsequently allocated to federal programs for the audit period, July 1, 2016, through June 30, 2017, and tested unusual transactions we identified. We then selected a sample of 32 expenditure transactions from the cost pools identified in fiscal staff's cost allocation schedules for the audit period, July 1, 2016, through June 30, 2017. Because fiscal staff allocated expenditures in three separate groups—salaries and wages, benefits, and all other expenditure categories (non-payroll expenditures)—we stratified our sample based on these three groups, which resulted in testing 13 non-payroll expenditures. The table below identifies the dollar amount of the non-payroll expenditures in the population by program after the costs were allocated to various federal programs.

Table 1
Non-payroll Expenditures Charged to Cost Pools and Allocated to Federal Programs

Program	Total Expenditures
Child and Adult Care Food Program (CACFP)	\$297,575
Summer Food Service Program for Children (SFSP)	\$200,056
State Administrative Expenses for Child Nutrition (SAE)	\$548,786
Supplemental Nutrition Assistance Program (SNAP)	\$45,834,926
Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants	\$532,434
Rehabilitation Services – Vocational Rehabilitation Grants to States (VR)	\$5,083,089
Independent Living Services for Older Individuals Who are Blind Program (ILOB)	\$264,272
Temporary Assistance for Needy Families (TANF)	\$26,770,025
Child Support Enforcement (CSE)	\$2,784,664
Community Services Block Grant (CSBG)	\$131,554

¹⁵ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including implementation of the cost allocation plan. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

Child Care and Development Fund (CCDF)	\$5,340,451
Social Services Block Grant (SSBG)	\$2,347,727
Medical Assistance Program (MAP)	\$5,106,325
Social Security Disability Insurance (SSDI)	\$3,727,881
State Expenditures	\$1,712,438
Grand Total	\$100,682,203

Source: Summarized using cost allocation documentation from fiscal staff.

Based on our testwork, we found that fiscal staff allocated unallowable costs to federal programs, including costs that had already been disallowed by the federal government (Condition A) and unallowable meeting costs (Condition B), and we found that a subrecipient overcharged a federal program for depreciation expense (Condition C) resulting in total known questioned costs of \$743,600.

Condition A. Allocation of Disallowed Costs to Federal Programs

Based on our review of unusual expenditures included in cost pools, we noted that fiscal staff improperly included \$743,572 of previously disallowed Vocational Rehabilitation Grants to States costs in their cost allocation calculations for the period October 2016 through December 2016. The VR costs were disallowed because the Assistant Secretary for Special Education and Rehabilitative Services within the U.S. Department of Education had found that Tennessee spent VR funds in violation of VR program requirements and for goods and services that could not be allocated to the VR program. The \$743,572 represented a settlement payment for the disallowed costs.

Including these costs in the calculations resulted in fiscal staff reallocating the disallowed costs to most of the programs administered by the department, including back to the Vocational Rehabilitation program. We questioned all disallowed costs that the department reallocated to a federal program. After we brought this matter to the attention of fiscal staff, we verified that fiscal staff created an adjustment entry to reverse these disallowed costs during field work on December 14, 2017, after our audit scope. See Table 2 below for more information.

Table 2
Disallowed Costs Reallocated to Federal Programs

Program	Federal Expenditures	State Matching Expenditures	Total Expenditures
Child Care and Development Block Grant	\$0	\$57,828	\$57,828
Community Services Block Grant	\$251	\$0	\$251
Child Support Enforcement	\$17,247	\$8,885	\$26,132
Independent Living Services for Older Individuals Who Are Blind	\$5,603	\$623	\$6,226
Medical Assistance Program	\$6,004	\$6,004	\$12,008
State Administrative Expenses for Child Nutrition	\$2,262	\$0	\$2,262

Program	Federal Expenditures	State Matching Expenditures	Total Expenditures
Summer Food Service Program	\$14	\$0	\$14
Supplemental Nutrition Assistance Program	\$183,668	\$183,668	\$367,336
Social Services Block Grant	\$28,878	\$0	\$28,878
Social Security Disability Insurance	\$87,165	\$0	\$87,165
Temporary Assistance for Needy Families	\$31,480	\$31,480	\$62,960
Vocational Rehabilitation	\$72,854	\$19,658	\$92,512
Totals	\$435,426	\$308,146	\$743,572

Source: Summarized using accounting records from Edison, the state's accounting system, and cost allocation documentation from fiscal staff.

Condition B. Allocation of Unallowable Meeting Costs to Federal Programs

Based on our sample testwork, fiscal staff allocated unallowable costs to various federal programs for 1 of 13 non-payroll expenditures tested (8%). Based on review of the supporting documentation for the transaction, the expenditure was a portion of a payment to reimburse an employee for meeting supplies, including decorations, candy, gum, and beverages. The description of the reimbursement request was "Materials – TDA [Tennessee DHS Accountability Process] Blow-Out," and per discussion with department staff, these meetings occurred biweekly during the audit period, but are no longer occurring. We concluded that the expenditures were unallowable, because the costs did not appear to be necessary and reasonable for the administration of federal awards, as required by federal regulations.

Condition C. Unallowable Depreciation Expense

In our *Single Audit Report* for 2016, we published a repeat finding (Finding 2016-068) because a subrecipient improperly used federal funds received from various state agencies to pay for the acquisition of its central office building. Although federal regulations prohibit the use of federal funds to acquire real property, these regulations permit non-federal entities to use federal funds to pay for building depreciation. The subrecipient used federal funds from the Summer Food Service Program received through the department to pay for building depreciation that was not calculated in accordance with Generally Accepted Accounting Principles (GAAP). Building depreciation in accordance with GAAP is calculated based on the cost of the building. Based on our review of the subrecipient's valuation of depreciation expense for the central office building, an appraised value in excess of the cost of the building was used to calculate depreciation.

Condition D. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that "Costs charged to a federal program are not allowable under program regulations" as having a remote likelihood and small impact. Given the unallowable costs identified in this finding and others during the current audit, such as 2017-015, 2017-033, and 2017-037, we concluded that management should have assessed the likelihood as reasonably

possible, assessed the impact as large, and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

Regarding unallowable costs, 2 CFR 200.441 states,

Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.

In addition, 2 CFR 200.403 states,

Except where otherwise authorized by statute, costs 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.

Finally, 2 CFR 200.436(c) states,

Depreciation is computed applying the following rules. The computation of depreciation must be based on the **acquisition cost** [emphasis added] of the assets involved . . .

Cause

Regarding the disallowed Vocational Rehabilitation costs allocated to various programs, we noted that costs charged to the disallowed cost accounting code appeared to be rare, and fiscal staff did not appear to have a process in place to consistently filter out the disallowed code. Regarding the employee reimbursement for unallowable meeting costs, we noted that fiscal staff did not appear to have established a method for classifying unallowable costs for employee reimbursements so they could be quickly identified and excluded from cost allocation pools during the cost allocation process. The Fiscal Director for the subrecipient stated that he had used the "Appraisal Cost" approach to calculating depreciation; he was not aware that this was not in conformity with GAAP.

Effect

Charging unallowable costs to federal programs increases the risk that the federal government will disallow the costs and seek recovery of the funds. 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, 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.

Questioned Costs and Other Required Reporting

Questioned Costs

We questioned \$435,448 in federal expenditures charged to federal awards, as well as \$308,152 in state matching expenditures, for a total of \$743,600 in questioned costs. See Tables 2 and 3 above for more details.

This finding, in conjunction with findings 2017-010 and 2017-013 (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.

Concerning questioned costs, 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.

Additionally, 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.

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.

Other Required Reporting

In order to fulfill our reporting responsibilities under 2 CFR 200.516, we are also required to include the following information in this finding. See Table 3 for a summary of the errors identified in Condition B above.

Table 3
Summary of Sample Testwork Errors

Program	Population Total	Dollar Amount of Sample Items Tested	Federal Questioned Costs in Sample	State Questioned Costs in Sample	Total Dollar Amount of Error in Sample
SFSP	\$200,056	\$1	\$0	\$0	\$0
SAE	\$548,786	3	1	0	1
SNAP	\$45,834,926	511	1	1	2
VR	\$5,083,089	117	1	1	2
ILOB	\$264,272	7	1	0	1
TANF	\$26,770,025	86	1	1	2
CSE	\$2,784,664	41	1	1	2
CSBG	\$131,554	1	0	0	0
CCDF	\$5,340,451	72	0	1	1
SSBG	\$2,347,727	225	1	0	1
MAP	\$5,106,325	138	1	1	2
SSDI	\$3,727,881	104	1	0	1
Grand Total	\$98,139,756	\$1,306	\$9	\$6	\$15

Regarding Condition C above, we questioned \$13 in federal costs charged to the Summer Food Service Program due to unallowable depreciation expense.

Even though the errors noted for Conditions B and C are small dollar errors, when Condition B's errors are projected to the population and both conditions are combined with known questioned costs described in other findings (see Questioned Cost sections), the questioned costs for the errors far exceed \$25,000 for each federal program identified in Conditions B and C. Title 2, *Code of Federal Regulations* (CFR), Section 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.

Recommendation

The Department Controller should ensure that employees are trained regarding unallowable costs and perform procedures to identify unallowable costs during the cost allocation process. The Department Controller should also establish a mechanism for classifying or otherwise tracking unallowable employee reimbursements in accounting records so that the unallowable costs can be quickly identified and excluded from cost allocation pools. The Commissioner of the Department of Human Services should take the necessary steps to ensure that subrecipients are aware of the allowable uses of grant funds and that subrecipients' expenditures are properly reviewed.

The Commissioner should assess all significant risks with sufficient attention to the impact and likelihood of the risk. 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

Condition A

We concur that disallowed costs related to the Vocational Rehabilitation Program were improperly included in expenditures that were cost allocated to multiple federal programs. The department corrected this issue by reversing the impact the improper allocation had on the federal programs. In December 2017, management implemented controls over the cost allocation process to ensure disallowed costs are excluded from the cost allocation process based on the general ledger account associated with this type of transaction.

Condition B

We concur that unallowable meeting costs were charged to federal programs. The department will prepare and post a correcting journal entry to correct funding related to these expenditures by March 31, 2018. While individual travel claims are initially approved by the employee's direct supervisor, fiscal will evaluate its current role in the process and strengthen related controls by June 30, 2018.

Condition C

We do not concur.

The subrecipient noted in condition C does not owe the department any federal funds regarding the building as of June 28, 2017. The department recouped all unallowed costs that were determined questionable in acquiring the building, in the amount of \$56,824.50. In fact, the department provided the state auditors and state audit management with a copy of the check and supporting documents to demonstrate that the subrecipient repaid the unallowed amounts to resolve the prior Single Audit finding.

The state auditors stated that “Regarding Condition C above, we questioned \$13 in federal costs charged to the Summer Food Service Program due to unallowable depreciation expense.” While depreciation is an accounting transaction to reduce a property cost, there is no actual cash for depreciation paid to the subrecipient for the state auditors to question as of June 28, 2017.

Condition D. Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor’s Comment

Condition C:

This condition is not about management’s resolution of a prior audit finding related to \$56,824 of unallowable building costs but rather depreciation expense for the related building. Depreciation is recorded as an expense even though it is not a cash transaction. The subrecipient’s records show that a portion of the depreciation expense for the building *was* incorrectly allocated to the Summer Food Service Program and thus questioned.

Finding Number	2017-013
CFDA Number	10.598, 84.126, 93.464, 93.558, 93.563, 93.575, 93.596, 93.667, and 93.778
Program Name	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants 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	2015S810621, 8044 H126A160063, 8044 H126A170063, 1701TNSGAT, G1502TNTANF, G1602TNTANF, 1604TNCSES, 1704TNCSES, G1601TNCCDF, G1501TNSOSR, G1601TNSOSR, 05-1605TN5ADM, and 05-1705TN5ADM
Federal Award Year	2015 through 2017
Finding Type	Significant Deficiency (84.126, 93.558, 93.563, 93.575, 93.596, and 93.778) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-014
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.598	2015S810621	\$521,215
84.126	8044 H126A160063	\$14,542
84.126	8044 H126A170063	\$33,078
93.464	1701TNSGAT	\$4,439
93.558	G1502TNTANF	\$149,105
93.558	G1602TNTANF	\$53,620
93.563	1604TNCSES	\$16,183
93.563	1704TNCSES	\$56,931
93.575	G1601TNCCDF	\$358
93.667	G1501TNSOSR	\$9,581
93.667	G1601TNSOSR	(\$4,288)
93.778	05-1605TN5ADM	\$8,846
93.778	05-1705TN5ADM	\$6,257

As noted in the prior two audits, fiscal staff for the Department of Human Services did not comply with federal requirements related to cost allocation plans, resulting in federal questioned costs of \$869,867

Background

Because the Department of Human Services administers various public assistance programs, federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by the department. Fiscal staff within the Department of Finance and Administration create and submit the cost allocation plan on behalf of the Department of Human Services, as well as allocate costs to federal grant awards in accordance with the cost allocation plan.

In accordance with federal regulations, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the cost allocation plan. During the audit period, July 1, 2016, through June 30, 2017, two cost allocation plans were effective for the department. The first plan was effective July 1, 2016, through March 31, 2017. The second was effective April 1, 2017. A total of \$381,213,289 of the department's expenditures during our audit period was subject to allocation under the cost allocation plan. (Federal regulations exclude from cost allocation plans expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.)

According to Title 45, *Code of Federal Regulations* (CFR), 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.

Fiscal staff use activity codes in Edison, the state's accounting system, to track expenditures for the department's programs and activities. For each activity code, management generally includes in the cost allocation plan 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 quarter, fiscal staff prepare 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 the federal programs administered by the department.

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 management did not amend the cost allocation plan to include new activity codes and allocated expenditures using methodologies that were inconsistent with the approved cost allocation plan. Department management concurred in part with the prior

audit finding and stated, “The Department is currently in the process of revising the cost allocation plan . . . to take effect on April 1, 2017,” and “A cost allocation manager position was created in December 2016 to oversee the Department’s cost allocation processes. . . . The position is also responsible for ensuring the cost allocation plan is updated when required.”

The Department Controller¹⁶ submitted an amended cost allocation plan, effective April 1, 2017, and created a new accounting manager position to oversee the department’s cost allocation processes which significantly reduced the amount of costs allocated improperly during the last quarter of the audit period. Despite these efforts, during the current audit, we found that fiscal staff still allocated expenditures using methodologies that were inconsistent with the department’s approved cost allocation plan. In addition, we found that the department’s amended cost allocation plan did not include all required information. As a result of the errors identified during the current audit, we questioned a net¹⁷ total of \$869,867 in federal costs and \$328,323 in state matching costs.

Summary of Conditions

We tested fiscal staff’s cost allocation processes for the periods October 1, 2016, to December 31, 2016, and April 1, 2017, to June 30, 2017. Based on testwork performed, the Department Controller did not ensure that the cost allocation plan adhered to federal regulations. Specifically, we noted that the Department Controller

- did not ensure that the amended cost allocation plan included all federally required information (see Condition A);
- did not ensure fiscal staff used allocation methodologies that were consistent with the approved cost allocation plan (see Condition B); and
- did not amend the cost allocation plan prior to changing allocation methodologies (see Condition C).

Condition A. The Department’s Amended Public Assistance Cost Allocation Plan Did Not Include All Federally Required Information

Federal regulations require state agencies to include specific information in any public assistance cost allocation plan submitted for approval. Specifically, 45 CFR 95.507 identifies the information the state is required to include within the plan. As part of our audit procedures, we reviewed the department’s amended *Public Assistance Cost Allocation Plan*, effective April 1, 2017, for compliance with 45 CFR 95.507 and determined that the Department Controller did not ensure that the amended cost allocation plan complied with federal regulations.

The Plan Did Not Include an Estimated Cost Impact Analysis

¹⁶ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services’ fiscal functions, including preparing and implementing cost allocation plans. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

¹⁷ 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.

The department's cost allocation plan is required to include the estimated cost impact resulting from the proposed changes to a previously approved plan. This estimated cost impact analysis should compare costs allocated using the proposed allocation methodology to costs allocated using the currently approved allocation methodology. Per federal regulations, if it is impractical to obtain the data needed to perform the analysis, "an alternative approach should then be negotiated with the Director, DCA [U.S. Department of Health and Human Services' Division of Cost Allocation], prior to submission of the cost allocation plan."

Based on our review, the Department Controller did not ensure the cost allocation plan included an estimated cost impact analysis, as required by federal regulations. We were also provided no indication that the Department Controller negotiated an alternative approach with the federal government prior to submitting the plan. Instead, the plan simply stated, "We do not anticipate that this PACAP will have any significant effect on DHS' [the Department of Human Services] claims for FFP [federal financial participation]."

Fiscal staff provided us an estimated cost impact analysis after the plan was submitted to the DCA for approval. This analysis was only for the period January 2017 through March 2017, and only for a small section of the department. Contrary to management's comments, the cost impact analysis indicated that the amended plan would have a significant impact on almost all federal programs included in the analysis. For example, under the amended plan, January 2017 through March 2017's allocated costs increased 277% for the Social Security Disability Insurance program and decreased 69% for the Child Support Enforcement program. See the table below for a summary of our results.

Table 1
Cost Impact Analysis for Amended Cost Allocation Plan

Program	Allocations Under Old Plan	Allocations Under New Plan	Difference	Percentage of Change
Child Care and Development Block Grant	\$740,525	\$1,002,497	\$261,972	35%
Child Support Enforcement	1,385,010	435,893	(949,117)	(69%)
Community Services Block Grant	48,190	4,143	(44,047)	(91%)
Medical Assistance Program	1,177,531	222,757	(954,774)	(81%)
Social Security Disability Insurance	384,878	1,451,764	1,066,886	277%
Social Services Block Grant	278,011	487,459	209,448	75%
State Administrative Expenses for Child Nutrition	473,239	39,557	(433,682)	(92%)
Supplemental Nutrition Assistance Program	6,290,414	6,333,225	42,811	1%
Temporary Assistance for Needy Families	932,015	1,033,482	101,467	11%
Vocational Rehabilitation	1,033,451	1,732,485	699,034	68%

Due to the significant differences noted, as well as the lack of any additional analyses provided by fiscal management, we concluded that management's comment stating that it anticipated no

significant effect on DHS's claims for FFP was unsupported. In addition, although we requested the supporting data behind the impact analysis management provided, management only provided the summary spreadsheet of the results and did not provide supporting data for the calculations. As a result, we could not review the underlying calculations to analyze the specific causes of the differences and determine whether the differences were the result of inequitable cost allocation practices. We also could not trace the amounts in the analysis to the department's cost allocation spreadsheets for the time period.

Finally, we concluded that the department did not appear to have established adequate controls over cost allocation, due to several weaknesses in the impact analysis, such as the following:

- Management included only one section of the department in the analysis even though the cost allocation plan included revisions that could impact other areas of the department differently. The departmental section included in the analysis made up \$12,743,264 of the \$96,419,509 in total expenditures subject to the cost allocation plan for the period January through March 2017.
- Management included only one quarter in the analysis even though a significant change in the amended cost allocation plan was based on an inaccurate assumption that overcharges to programs in one quarter would be reversed in the next quarter. See Finding 2017-010. A multi-period analysis would have allowed management to test the validity of this assumption.
- There was no evidence that management performed follow-up procedures for the significant variances in Table 1 above. Significant variances could be the result of inequitable allocation methods (meaning the plan would be in violation of federal cost principles) or errors in the impact analysis.
- The amount of expenditures included in the impact analysis did not agree with the department's cost allocation schedules for the period; therefore, it was not clear that the data used to prepare the analysis was reliable.

Criteria for Condition A

Regarding estimated costs, 45 CFR 95.507(b)(5) states that the cost allocation plan shall include

The estimated cost impact resulting from the proposed changes to a previously approved plan. These estimated costs are required solely to permit an evaluation of the procedures used for identifying, measuring, and allocating costs. Therefore, approval of the cost allocation plan shall not constitute approval of these estimated costs for use in calculating claims for FFP. Where it is impractical to obtain this data, an alternative approach should then be negotiated with the Director, DCA, prior to submission of the cost allocation plan.

Cause for Condition A

When we asked the Department Controller why the analysis was excluded from the cost allocation plan, he stated that the regulations are “. . . clear that the analysis itself is not something that is approved as part of the cost allocation plan and is an estimate . . .” While the regulation quoted

above does state that approval of the plan does not constitute approval of the costs in the estimated impact analysis, the regulation requires the estimated impact to be included.

Condition B. Fiscal Staff Used Cost Allocation Methods That Were Inconsistent With the Plan

For our audit period of July 1, 2016, through June 30, 2017, to determine if the department followed its approved cost allocation plan when charging costs to federal grants, we compared the Edison activity codes that fiscal staff used to charge expenditure costs to grants with all combinations of activity codes included in the department's cost allocation plan. For the period July 1, 2016, through March 31, 2017, the cost allocation plan included 378 activity codes. For the period April 1, 2017, through June 30, 2017, the cost allocation plan did not contain a listing of activity codes, but fiscal staff provided us with a listing of activity codes used during the period and information regarding how those codes' costs were allocated. This listing included 136 unique codes. We specifically wanted to determine whether the department included all activities in the cost allocation plan and allocated costs according to the plan. Testwork was performed to determine this for both cost allocation plans effective during the year.

For the period July 1, 2016, through March 31, 2017, 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.) For the period of April 1, 2017, through June 30, 2017, the listing provided by fiscal staff provided this information.

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 fiscal staff used the allocation method described in the plan for that description.

Based on our review, we found that the Department Controller did not ensure that the department's cost allocation plan included all activity codes or that costs were allocated to programs according to the methodologies in the approved cost allocation plan.

July 1, 2016, Through March 31, 2017: All Activity Codes Were Not Included in the Plan and Costs Were Not Always Allocated in Accordance With the Plan

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

For the period July 1, 2016, through March 31, 2017, the Department Controller did not ensure the cost allocation plan included 182 activity codes the department used in the state's accounting system, Edison, to allocate costs. Expenditures charged to these 182 activity codes totaled \$86,091,223. See Table 2 for the total expenditures charged to each federal program.

Table 2
Expenditures (by Program) Charged to Activity Codes Not Included in the Approved Cost Allocation Plan, July 1, 2016, Through March 31, 2017

Program	Federal Expenditures	Non-Federal Expenditures	Total Expenditures
Assistive Technology	\$148,765	\$ -	\$148,765
Child and Adult Care Food Program	15,451,228	-	15,451,228
Child Care and Development Block Grant	191,323	409,840	601,163
Community Services Block Grant	3,629	-	3,629
Child Support Enforcement	1,033,056	544,485	1,577,541
Child Support Enforcement Research	22,655	-	22,655
Independent Living Services for Older Individuals Who Are Blind	936,865	93,318	1,030,183
Independent Living State Grants	28,792	3,199	31,991
Medical Assistance Program	995,529	1,075,768	2,071,297
Maternal and Child Health Services Block Grant	16,708	16,707	33,415
State Administrative Expenses for Child Nutrition	30,403	-	30,403
Summer Food Service Program	8,636,177	-	8,636,177
Supplemental Nutrition Assistance Program	8,828,069	6,057,165	14,885,234
SNAP Recipient Trafficking Prevention Grants	521,215	-	521,215
Social Services Block Grant	141,561	-	141,561
Social Security Disability Insurance	235,911	-	235,911
Temporary Assistance for Needy Families	7,427,276	3,706,260	11,133,536
Vocational Rehabilitation	20,520,115	5,289,442	25,809,557
Vocational Rehabilitation Unit In-Service Training	2,074	231	2,305
State Only Activities*	-	3,723,457	3,723,457
Totals	\$65,171,351	\$20,919,872	\$86,091,223

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

* "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.

For 172 of these 182 activity codes, we found that even though fiscal staff had not included an activity code in the cost allocation plan (either in the original submission or through amendments), fiscal staff allocated costs associated with the 172 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.

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

Although we found that 172 of 182 activity codes for the period of July 1, 2016, through March 31, 2017, were allocated consistently with the approved cost allocation plan, we found that the department's fiscal staff allocated expenditures for the remaining 10 activity codes 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:

- a. 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 \$433,158 in expenditures for this activity were charged to TANF. These costs are included in Table 3 below.
- b. For one activity, the Tennessee Technology Access Project Director, the cost allocation plan required the department to charge costs to federal programs as direct costs, with supporting documentation demonstrating the proportion of benefits provided to federal programs (such as timesheets). Fiscal staff allocated \$8,877 split between the Assistive Technology and Vocational Rehabilitation grants using a predetermined percentage, rather than allocating costs based on a timesheet or some other supporting documentation. Since the department did not use a valid methodology to allocate these costs, we questioned the costs. These costs are included in Table 3 below.
- c. For the remaining eight activity codes, totaling \$2,075,935 in expenditures, the approved cost allocation plan required fiscal staff to treat the costs as indirect costs. Specifically, fiscal staff were required to allocate the activities' costs to all programs administered by the department 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 eight activity codes to three or fewer programs, depending on the activity code. We calculated the correct allocation amounts and compared our calculations to fiscal staff's allocations. We questioned the differences. These amounts are included in Table 3 below.

Table 3
Differences (by Program) for Ten Activity Codes Not Charged in Accordance With the Cost Allocation Plan for the Period July 1, 2016, Through March 31, 2017

Program	Federal Expenditures	State Expenditures	Total Expenditures
Programs Overcharged			
Assistive Technology	\$4,439	\$ -	\$4,439
Child Care and Development Block Grant	-	58,020	58,020
Child Support Enforcement	73,089	37,653	110,742
Medical Assistance Program	15,086	15,086	30,172
SNAP Trafficking Prevention Program	521,215	-	521,215
Social Services Block Grant	5,265	-	5,265
Temporary Assistance for Needy Families	202,677	198,952	401,630
Vocational Rehabilitation	47,499	12,978	60,476
Total	\$869,270	\$322,689	\$1,191,959

Programs Undercharged			
Child and Adult Care Food Program	(38)	-	(38)
Community Service Block Grant	(604)	-	(604)
Independent Living for Older Persons Who Are Blind	(11,300)	(1,256)	(12,556)
Social Security Disability Insurance	(156,975)	-	(156,975)
State Administrative Expenses for Child Nutrition	(4,722)	-	(4,722)
Summer Food Service Program	(11)	-	(11)
Supplemental Nutrition Assistance Program	(287,509)	(287,509)	(575,018)
Total	(461,159)	(288,765)	(749,924)

April 1, 2017, Through June 30, 2017: Costs Were Not Allocated in Accordance With the Plan

We found that 6 activity codes for the period of April 1, 2017, through June 30, 2017, were not allocated consistently with the approved cost allocation plan. Specifically, the approved cost allocation plan required fiscal staff to allocate the activities' costs to all programs administered by the department based on the number of each program's filled full- and part-time positions at the end of the prior quarter. Instead of allocating the costs to all programs, we found that fiscal staff charged the costs for the six activity codes to one or more programs, but not all programs. Since the activities were excluded from the plan and charged to programs in a manner inconsistent with the cost allocation plan, we questioned the costs allocated to these activity codes. See Table 4 below.

Table 4
Expenditures (by Program) Charged to Activity Codes Inconsistent With the Cost Allocation Plan, April 1, 2017, Through June 30, 2017

Program	Federal Expenditures	State Expenditures	Total Expenditures
Child Care and Development Block Grant	\$358	\$5,523	\$5,881
Child Support Enforcement	25	13	38
Independent Living Services for Older Individuals Who Are Blind	1	-	1
Medical Assistance Program	17	17	34
Supplemental Nutrition Assistance Program	281	281	562
Social Services Block Grant	28	-	28
Social Security Disability Insurance	125	-	125
Temporary Assistance for Needy Families	48	48	96
Vocational Rehabilitation	121	33	154
Totals	\$1,004	\$5,915	\$6,919

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

Criteria for Condition B

According to 45 CFR 95.507(b)(4), the state's cost allocation plan must include

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

In addition, 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.

According to 45 CFR 95.519,

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, 2 CFR 200 (and 45 CFR 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.

According to the amended cost allocation plan's approval letter provided to the department by the U.S. Department of Health and Human Services, approval of the plan is based on information provided by the state and is void if the information is later found to be materially incomplete or inaccurate.

Cause for Condition B

Fiscal staff made changes to the cost allocation methodologies used but did not revise the cost allocation plan to reflect these changes until the revision of the cost allocation plan effective April 1, 2017. After the cost allocation plan was amended, fiscal staff removed activity codes that were no longer used from their cost allocation workbooks. Small amounts of expenditures were still charged to these activity codes and therefore were not properly allocated in accordance with the new plan.

Condition C. Fiscal Staff Did Not Amend the Cost Allocation Plan Prior to Changing Allocation Methodologies

Based on our testwork, fiscal staff did not amend the cost allocation plan prior to revising cost allocation methodologies, which is not in accordance with federal requirements.

Position Counts Cost Allocation Basis

According to the amended cost allocation plan, effective April 1, 2017, departmental divisions whose costs are allocated using the position counts basis must be allocated using counts of full- and part-time positions at the end of the prior quarter. Based on our review of fiscal staff's cost allocation tables, for costs incurred April 1, 2017, through June 30, 2017, all cost allocation tables using this basis were prepared using average filled position counts for the quarter January 2017 through March 2017, rather than filled positions as of March 31, 2017. As noted in Finding 2017-010, we questioned costs due to fiscal staff using January 2017 through March 2017 information to allocate the department's April 2017 through June 2017 costs; thus, the only additional issue noted here is that fiscal staff were required to use position counts as of the end of the prior quarter, but fiscal staff used average filled position counts instead. We did not question costs related to this matter, because the information needed to calculate questioned costs was not readily available; however, we noted that using average filled position counts for a quarter would provide a more accurate determination of the proportional benefits programs received throughout the quarter. Prior to using the revised method, however, federal regulations required the Department Controller to submit an amendment to the department's approved cost allocation plan.

Assistant Commissioner of Community and Social Services

According to the Cost Allocation Plan effective for the period July 2014 through March 2017, the Assistant Commissioner of Community and Social Services and the Assistant Commissioner's staff should be allocated using Table 13. This table is made using position counts for staff working on the Child Care and Development Fund, Community Services Block Grant, Adult Protective Services, and the State Administrative Expenses for Child Nutrition (SAE) programs. Beginning October 2016, the department reorganized management's responsibilities, and this position lost purview over the SAE program. The department created Table 18 to more accurately allocate this Assistant Commissioner's costs. Even though this is a more accurate allocation basis, the fiscal staff did not amend the cost allocation plan before this reorganization occurred. The department ultimately updated the cost allocation plan which included these changes and obtained approval from the federal agency effective April 2017. Although fiscal staff did not claim costs in accordance with its approved cost allocation plan for October 2016 through March 2017, we did not question costs due to the failure to claim costs in accordance with the cost allocation plan, because charging costs to the SAE program in accordance with the plan would have been a violation of federal requirements. This is because SAE did not receive any benefit from the Assistant Commissioner's Office's activities during this period.

Cause for Condition C

Fiscal staff were not aware that the cost allocation plan needed to be amended before new methodologies could be placed into practice. For the positions count basis, fiscal staff continued to use the previous methodology, not realizing that the amended cost allocation plan no longer permitted using average position counts to create cost allocation tables.

Criteria for Condition C

Concerning amending the cost allocation plan, 45 CFR 95.509(a) states that the state shall promptly amend the cost allocation plan and submit the amended plan for approval if any of the following events occur:

- (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.
- (2) A material defect is discovered in the cost allocation plan by the Director, DCA [U.S. Department of Health and Human Services' Division of Cost Allocation] or the State.
- (3) The State plan for public assistance programs is amended so as to affect the allocation of costs.
- (4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.

According to 45 CFR 95.517(a) "A State must claim FFP [federal financial participation] for costs associated with a program only in accordance with its approved cost allocation plan." This requirement is effectively extended to all programs administered by state public assistance agencies by Section C, Appendix VI, of 2 CFR 200 (formerly Section C of OMB A-87, Attachment D), which states,

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

Condition D: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that "Costs charged to a federal program are not allowable under program regulations" as having a remote likelihood and small impact; however, management did not identify any mitigating controls related to the issue. Given the unallowable costs and cost principles issues identified in this finding and others during the current audit, such as 2017-015, 2017-033, and 2017-037, we concluded that management should have assessed the likelihood as reasonably possible, assessed the impact as large, and included a control activity to mitigate the risk in the department's annual risk assessment.

Effect for All Conditions

Failure to allocate costs in accordance with the cost allocation plan and federal requirements increases the risk that fiscal staff will not 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 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 \$1,198,190 due to the net amount of overcharges to federal programs, consisting of federal questioned costs of \$869,867 and \$328,323 in questioned costs related to state matching funds for federal grant awards. See Tables 3 and 4 above for details regarding all overcharges and undercharges.

This finding, in conjunction with findings 2017-010, 2017-012, 2017-014, 2017-015, 2017-037, and 2017-040 (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 two federal programs. This finding, in conjunction with findings 2017-012, 2017-014, and 2017-015, results in total known federal questioned costs exceeding \$25,000 for a program which is not audited as a major program.

Regarding questioned costs, 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. Additionally, 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.

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 Department Controller should establish adequate internal controls over the cost allocation plan amendment process, including addressing each of the deficiencies identified above. The Department Controller should also ensure that the Department of Human Services' cost allocation plan contains all required information, fiscal staff's accounting practices for cost allocation are consistent with the approved cost allocation plan, and that the cost allocation plan is amended prior to fiscal staff implementing any new cost allocation methodology.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

Condition A. The Department's Amended Public Assistance Cost Allocation Plan Did Not Include All Federally Required Information

We do not concur.

The cost impact statement was not included in the original transmission of the cost allocation plan; however, it was provided to our federal partners during the negotiation phase of the process. The statement in the cost allocation plan was based on overall effect to federal programs as opposed to analysis of each individual program since the document itself is all encompassing. As the citation in the finding indicates, the cost impact statement is an estimate and the approval of the plan does not constitute an approval of the estimate.

Condition B. Failure to Use Cost Allocation Methods Consistent With the Plan

We concur in part.

The department concurs that not all codes were included in the 2014 cost allocation plan. This is one of the reasons the cost allocation plan was amended April 1, 2017. The updated plan reduces the complexities and risk for error.

In regard to the 10 omitted codes, where the captured and properly allocable costs were allocated using methodologies not specifically prescribed by the cost allocation plan, an important consideration is that while the 10 activity codes noted in the finding may not have been charged in accordance with (or consistent with) the approved plan, the costs were in fact properly 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 2017, the unit only handled TANF cases; therefore, costs were charged to TANF, the benefiting program.
- b.) The Tennessee Technology Access Project Director's costs were initially (by speedchart) recorded using a predefined percentage. The director kept a timesheet outside of the system so that fiscal staff could reallocate her time based on direct charges. Journal entries to charge the director's time were made throughout the audit period and covered the period July 1, 2016, through April 16, 2017, at which time Edison functionality was added so that the director could keep her time in the system.
- c.) For the remaining 8 activity codes, the allocation methodologies used to charge the benefiting programs are shown in the table below:

Dept	Program	Unit	Allocation Basis	Program
3450103200		OLPD Child Support (1)	Direct	100% Child Support
3450103300		OLPD Family Assistance (1)	RMS	100% Family Assistance (Table FA-2)
3450103400		OLPD Child Care (1)	Total Costs	100% Child Care (Table 8)
3450103500		OLPD Adult Protective Services (1)	Direct	100% APS
3450103600		OLPD Rehab Services (1)	Direct	100% VR
3450103600	701000	OLPD Rehab Services (1)	Direct	100% VR
3450103700		OLPD DDS (1)	Direct	100% DDS
3450105100	320001	SNAP Trafficking (2)	Direct	100% SNAP Trafficking Program

- (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 (2 lines above have the same department ID), 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.

In regard to the 6 activity codes for the period April 1, 2017, through June 30, 2017, these charges occurred during the accounting adjustment periods to close the state's books (after June 30, 2017). These charges were allocated in a manner closely mirroring allocated charges based on Table 1. Several programs the department administers are small in relation to the others (less than 1% to be charged based on Table 1), that they cannot be included in the established speed chart based allocation process. The system will not accept a line item in the speed chart for less than 1%. Management believes the alternative allocation approach utilized in this particular situation resulted in an equitable allocation. The costs presented in Table 4 appear to be all costs charged via the speed chart and not the immaterial difference between the speed chart allocation percentages and Table 1.

Condition C. Fiscal Staff Did Not Amend the Cost Allocation Plan Prior to Changing Allocation Methodologies

We concur.

The plan was not amended prior to revising cost allocation methodologies; however, as noted by the state auditors, the methodologies resulted in the equitable distribution of costs to the proper benefitting programs. A revised cost allocation plan was submitted on April 1, 2017, which resolved the issues noted in Condition C.

Condition D. Risk Assessment

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A. The Department's Amended Public Assistance Cost Allocation Plan Did Not Include All Federally Required Information

Federal regulations required the estimated impact to be included in the plan, and management acknowledges that "The cost impact statement was not included in the original transmission of the cost allocation plan"; therefore, it is not clear why management has not concurred with Condition A. If the department was unable to obtain the necessary data to prepare the estimate, federal regulations require the department to negotiate an alternative approach "prior to submission of the

plan.” There is no provision for submitting the cost allocation plan first without the required estimated cost impact.

Finding Number	2017-014
CFDA Number	10.558, 10.560, 10.561, 84.126, 84.177, 93.558, 93.563, 93.569, 93.575, 93.667, 93.778, and 96.001
Program Name	Child and Adult Care Food Program 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 Temporary Assistance for Needy Families Cluster Child Support Enforcement Community Services Block Grant 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	201616N109945, 201616N253345, 201717N253345, 201616IS251445, 201717IS251445, 8044 H126A160063, 8044 H126A170063, H177B160064, H177B170064, G1402TNTANF, G1502TNTANF, G1602TNTANF, 1604TNCSES, 1704TNCSES, G15B1TNCOSR, G16B1TNCOSR, G1701TNCCDF, G1501TNSOSR, G1601TNSOSR, 05-1605TN5ADM, 05-1705TN5ADM, 8826 04-16-04TNDI00, and 8826 04-17-04TNDI00
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency (10.558, 10.561, 84.126, 93.558, 93.563, and 93.575) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-015
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.558	201616N109945	\$4,765
10.560	201616N253345	\$12,615
10.560	201717N253345	\$9,881
10.561	201616IS251445	\$111,565
10.561	201717IS251445	\$158,424
84.126	8044 H126A160063	\$44,738
84.126	8044 H126A170063	\$62,849

84.177	H177B160064	\$1,701
84.177	H177B170064	\$2,568
93.558	G1402TNTANF	\$4,933
93.558	G1502TNTANF	\$3,895
93.558	G1602TNTANF	\$57,358
93.563	1604TNCSES	\$100,308
93.563	1704TNCSES	\$132,192
93.569	G15B1TNCOSR	\$6,875
93.569	G16B1TNCOSR	\$4,670
93.575	G1701TNCCDF	\$13,492
93.667	G1501TNSOSR	\$11,993
93.667	G1601TNSOSR	\$757,956
96.001	8826 04-16-04TNDI00	\$16,522
96.001	8826 04-17-04TNDI00	\$21,699

As noted in the prior two audits, fiscal staff for the Department of Human Services did not allocate costs in accordance with the department's approved cost allocation plan, resulting in federal questioned costs of \$1,540,999

Background

Because the Department of Human Services (the department) administers various public assistance programs, federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate costs to all programs administered by the department. Fiscal staff within the Department of Finance and Administration create and submit the cost allocation plan on behalf of the Department of Human Services, as well as allocate costs to federal grant awards in accordance with the cost allocation plan.

In accordance with federal regulations, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs based on the cost allocation plan. During the audit period, July 1, 2016, through June 30, 2017, two cost allocation plans were effective for the department. The first plan was effective July 1, 2016, through March 31, 2017. The second was effective April 1, 2017. A total of \$381,213,289 of the department's expenditures during our audit period was subject to allocation under the cost allocation plan. (Federal regulations exclude from cost allocation plans expenditures for financial assistance, medical vendor payments, food stamps, and payments for services and goods provided directly to program recipients.)

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.

Each quarter, fiscal staff prepare 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 the federal programs administered by the department.

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 management did not prepare cost allocation tables correctly, did not perform cost allocation entries, and used the incorrect cost allocation tables to allocate costs. Department management concurred in part with the prior audit finding and stated, "The Department is currently in the process of revising the cost allocation plan to take effect on April 1, 2017," and "A cost allocation manager position was created in December 2016 to oversee the Department's cost allocation processes. . . . The position is also responsible for ensuring the cost allocation plan is updated when required."

The Department Controller¹⁸ submitted an amended cost allocation plan, effective April 1, 2017, and created a new accounting manager position to oversee the department's cost allocation processes, which significantly reduced the amount of costs allocated improperly during the last quarter of the audit period. Despite these efforts, during the current audit, we found that fiscal staff still did not prepare all cost allocation tables correctly, did not detect errors in cost allocation workbooks, used incorrect allocation tables, and did not always perform cost allocation entries. As a result of the errors identified during the current audit, we questioned a net¹⁹ total of \$1,540,999 in federal costs.

Summary of Conditions

We tested fiscal staff's cost allocation processes for the periods October 1, 2016, to December 31, 2016, and April 1, 2017, to June 30, 2017. Based on our testwork, we found that the Department Controller did not ensure fiscal staff allocated costs to federal awards in accordance with the cost allocation plan. Specifically, we noted that fiscal staff

- prepared three cost allocation tables incorrectly (see Condition A),
- did not detect errors in cost allocation workbooks for four areas (see Condition B), and
- used incorrect cost allocation tables to allocate costs for one area (see Condition C).

¹⁸ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including preparing and implementing cost allocation plans. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

¹⁹ 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 and Cause

Condition A. Fiscal Staff Prepared Three Cost Allocation Tables Incorrectly

Based on our testwork, fiscal staff prepared cost allocation tables CR-1, 9A-2, and ACS-3 incorrectly.

Table CR-1

Per the cost allocation plan effective from July 1, 2016, through March 31, 2017, fiscal staff created Table CR-1 to allocate all rent and office expenses related to the Citizen's Plaza State Office Building. The plan stated that these costs would be allocated based on square footage. The plan also stated that occupancy reports obtained from facility records would be used as the data to support the square footage allocation methodology. However, 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.

Since fiscal staff did not prepare Table CR-1 based on square footage for the period July 1, 2016, through March 31, 2017, as required by the applicable plan, we questioned all costs allocated via Table CR-1 during the period. This resulted in \$674,737 in federal questioned costs and \$499,460 in questioned costs related to state matching funds. These questioned costs are included in **Table 1** below.

In accordance with the amended cost allocation plan, effective April 1, 2017, fiscal staff no longer use this table. Instead, effective April 1, 2017, fiscal management began allocating rent and office expenses to all programs based on full- and part-time position counts in accordance with the amended cost allocation plan. Because the costs are no longer required to be allocated based on square footage, we do not anticipate that this problem will reoccur.

Table 9A-2

Per the cost allocation plan effective from July 1, 2016, through March 31, 2017, fiscal staff created Table 9A-2 to allocate all expenses related to the Tech Support section. The plan stated that Tech Support costs would be allocated based on device counts (the number of devices assigned to department staff). The plan also stated that the department would 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.

Since fiscal staff did not prepare Table 9A-2 based on device counts for the period July 1, 2016, through March 31, 2017, as required by the applicable plan, we questioned all costs allocated via Table 9A-2 during the period. This resulted in \$165,010 in federal questioned costs and \$136,511 in questioned costs related to state matching funds. These questioned costs are included in **Table 1** below.

In accordance with the amended cost allocation plan, effective April 1, 2017, fiscal staff no longer use this table. Instead, effective April 1, 2017, fiscal management began allocating Tech Support

costs to all programs based on full- and part-time position counts in accordance with the amended cost allocation plan. Because the costs are no longer required to be allocated based on device counts, we do not anticipate that this problem will reoccur.

Table ACS-3

In accordance with both cost allocation plans effective during the audit period, fiscal staff created Table ACS-3 to allocate all costs associated with the department's Adult Protective Services (APS) division. According to the plans, APS' costs are allocated based on random moment sampling time studies. These studies involve randomly selecting APS employees to answer telephone surveys periodically throughout their workday to determine what program they are working on. The surveys allow the employees to choose between the Medical Assistance Program (Medicaid), the Social Services Block Grant (SSBG), or non-program related general administrative tasks. Since costs associated with administrative tasks cannot be allocated directly to one program, they should be split between Medicaid and SSBG proportionately.

Instead, fiscal staff assigned all costs related to administrative activities solely to SSBG. This means that for the period of July 1, 2016, through June 30, 2017, fiscal staff were charging the SSBG program costs that should have been allocated to Medicaid.²⁰ During this period, fiscal staff allocated \$9,672,324 of expenditures through Table ACS-3. We recalculated Table ACS-3 to allocate administrative costs to both SSBG and Medicaid for the two quarters selected in our testwork—October 2016 through December 2016, and April 2017 through June 2017. For these two quarters, this error resulted in federal questioned costs of \$148,060 for the SSBG program, while Medicaid was undercharged the same. These questioned costs are included in **Table 1** below.

Table 1
Combined Questioned Costs for Condition A

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Child and Adult Care Food Program	\$ 4,765	\$ -	\$ 4,765
Child Care and Development Block Grant	-	112,409	112,409
Child Support Enforcement	232,045	119,538	351,583
Community Services Block Grant	11,545	-	11,545
Independent Living Services for Older Individuals Who Are Blind	4,269	474	4,743
Social Security Disability Insurance	38,221	-	38,221
Social Services Block Grant	178,502	-	178,502
State Administrative Expenses for Child Nutrition	35,988	-	35,988
Supplemental Nutrition Assistance Program	283,977	283,977	567,954

²⁰ Although requested, fiscal staff did not provide us any program-specific regulations for Medicaid that indicated that these administrative costs were prohibited from being charged to Medicaid.

Temporary Assistance for Needy Families	69,099	69,099	138,198
Vocational Rehabilitation	107,580	28,658	136,238
Total	\$965,991	\$614,155	\$1,580,146
Amount Undercharged			
Medical Assistance Program	\$(52,215)	\$(52,215)	\$(104,430)
Total	\$(52,215)	\$(52,215)	\$(104,430)

Cause for Condition A

For Tables 9A-2 and CR-1, we concluded that the issues were primarily caused by the Department Controller and fiscal staff choosing not to change their cost allocation methodologies for the above areas until the cost allocation plan was amended. The Department Controller had started updating the cost allocation plan during our fieldwork for the prior Single Audit, and it was amended shortly after we released the prior audit report, which remedied these issues going forward. Additionally, for Table ACS-3, fiscal staff did not realize that, unless prohibited by program-specific federal regulations, administrative tasks that benefit multiple programs should be allocated to each program, not just SSBG.

Condition B. Fiscal Staff Did Not Detect Errors in Cost Allocation Workbooks for Four Areas

Appeals and Hearings

Based on our testwork, we found that the department allocated all Child and Adult Food Program (CACFP) costs incurred by the Appeals and Hearings division to the Child Care and Development Fund (CCDF) program due to a spreadsheet error. This issue was present during the period of July 1, 2016, through June 30, 2017. After we brought this matter to the attention of fiscal management, management addressed the matter promptly by recalculating allocation results for the division, correcting the erroneous workbook, 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 related to the overcharges to CCDF and undercharges to CACFP. In total, CCDF was overcharged by \$13,492, and CACFP was undercharged by an equal amount. The questioned costs are included in **Table 2** below.

Adult Protective Services – Tables 1 and 4

Based on our review of cost allocation workbooks, we found that the department allocated costs to the Adult Protective Services (APS) group incorrectly when using Tables 1 and 4.²¹ In some instances, a portion of costs allocated to an activity via a cost allocation table must be reallocated using another cost allocation table. For example, if Table 1 includes a row that charges 10% of

²¹ Table 1 is used to allocate indirect costs that benefit all programs administered by the department. Table 4 is used to allocate direct costs associated with the Office of General Counsel field staff.

Table 1 costs to APS, and the APS table includes a row that charges 60% to SSBG, then \$1,000 charged to Table 1 will ultimately result in charging \$60 to SSBG (\$1,000 x 10% x 60%).

When fiscal staff allocated costs using Tables 1 and 4, which both included a row for APS, fiscal staff allocated all APS costs to the Social Services Block Grant (SSBG), instead of reallocating the costs to both SSBG and the Medical Assistance Program (Medicaid) using the appropriate cost allocation table.²² This problem occurred throughout the audit period, July 1, 2016, through June 30, 2017. After we brought this matter to the attention of fiscal management, management addressed the matter promptly by recalculating allocation results for the division 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 related to the overcharges to SSBG and undercharges to Medicaid. In total, SSBG was overcharged by \$536,406, and Medicaid was undercharged by the same amount. The questioned costs are included in **Table 2** below.

Adult Protective Services – Non-salary Expenses

Based on our review of cost allocation workbooks fiscal staff used to allocate costs for the APS division, we found that fiscal staff allocated all APS non-salary expenses for August 2016 and September 2016 to SSBG instead of allocating the costs to both SSBG and Medicaid based on the results of random moment sampling, as required by the plan. We noted that an error within the cost allocation spreadsheets for these two months caused all expenses to be charged to SSBG, rather than to both programs.

Because the department's controls were not sufficient to identify and correct the error, we questioned costs related to the overcharges to SSBG and undercharges to Medicaid. In total, the SSBG program was overcharged by \$54,510 of federal expenses, and Medicaid was undercharged by the same amount. The questioned costs are included in **Table 2** below.

Table 2
Combined Questioned Costs for Condition B

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Child Care and Development Block Grant	\$ 13,492	\$ -	\$ 13,492
Social Services Block Grant	590,916	-	590,916
Total	\$604,408	\$ -	\$604,408
Amount Undercharged			
Medical Assistance Program (Medicaid)	\$(295,458)	\$(295,458)	\$(590,916)

²² Although requested, fiscal staff did not provide us any program-specific regulations for Medicaid that indicated that these costs were prohibited from being charged to Medicaid.

State Administrative Expenses for Child Nutrition	(13,492)	-	(13,492)
Total	\$(308,950)	\$(295,458)	\$(604,408)

Cause for Condition B

These errors were the result of errors in fiscal staff's cost allocation spreadsheets. Fiscal staff corrected the error related to the Appeals and Hearings division, as well as the error related to APS costs charged solely to SSBG on December 12, 2017. As of the end of our fieldwork, fiscal staff had not corrected the error related to APS' non-salary expenses.

Condition C. Fiscal Staff Used Incorrect Cost Allocation Tables to Allocate Costs for One Area

Based on our testwork, fiscal staff did not use the correct cost allocation table to allocate costs for the Family Assistance Renewal Processing unit. Fiscal staff's practice was to allocate costs for the unit (which primarily performs eligibility processing for the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families Program, and the Medicaid program) 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 for the period of July 1, 2016, through March 31, 2017. For the period of April 1, 2017, through June 30, 2017, fiscal staff began using Table FA1-1 to allocate these costs, as required by the cost allocation plan effective April 1. We questioned the differences caused by the use of Table FA-5M rather than Table FA1-1. See **Table 3** below.

Table 3
Questioned Costs for Condition C

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Child Support Enforcement	\$455	\$235	\$690
Medical Assistance Program (Medicaid)	19,730	19,730	39,460
Social Services Block Grant	531	-	531
Vocational Rehabilitation	7	2	9
Total	\$20,723	\$19,967	\$40,690
Amount Undercharged			
Child Care and Development Block Grant	\$ -	\$(1,061)	\$(1,061)

Supplemental Nutrition Assistance Program	(13,988)	(13,988)	(27,976)
Temporary Assistance for Needy Families	(2,913)	(8,740)	(11,653)
Totals	\$(16,901)	\$(23,789)	\$(40,690)

Cause for Condition C

Although fiscal staff updated the procedures used to create Tables FA-5M and FA1-1 following the conversion of a service center to a renewal processing unit in October 2014, the procedures used to allocate costs based on these tables were not updated until the amended cost allocation plan became effective on April 1, 2017.

Condition D: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that "Costs charged to a federal program are not allowable under program regulations" as having a remote likelihood and small impact; however, management did not identify any mitigating controls related to the issue. Given the unallowable costs and cost principles issues identified in this finding and in others during the current audit, such as 2017-015, 2017-033, and 2017-037, we concluded that management should have assessed the likelihood as reasonably possible, assessed the impact as large, and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria for Conditions A Through C

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 effectively extends to all programs administered by state public assistance agencies by Section C, Appendix VI, of 2 CFR 200 (formerly Section C of OMB A-87, Attachment D), which states,

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

2 CFR 200.405(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.

45 CFR 95.509(a) states that the State shall promptly amend the cost allocation plan and submit the amended plan for approval if any of the following events occur:

- (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.
- (2) A material defect is discovered in the cost allocation plan by the Director, DCA [U.S. Department of Health and Human Services' Division of Cost Allocation] or the State.
- (3) The State plan for public assistance programs is amended so as to affect the allocation of costs.
- (4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.

45 CFR 95.519 states that if costs under a public assistance program are not claimed in accordance with the approved cost allocation plan or if the State failed to submit an amended cost allocation plan as required by Section 95.509, the costs improperly claimed will be disallowed.

Effect for All Conditions

Failure to allocate costs in accordance with the cost allocation plan and federal requirements increases the risk that fiscal staff will not 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 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 \$2,131,602 due to the net amount of overcharges to federal programs, consisting of federal questioned costs of \$1,540,999 and \$590,603 in questioned costs related to state matching funds. See **Table 4** for details regarding all overcharges and undercharges.

Table 4
Combined Questioned Costs for All Conditions

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Child and Adult Care Food Program	\$ 4,765	\$ -	\$ 4,765
Child Care and Development Block Grant	13,492	111,348	124,840
Child Support Enforcement	232,500	119,773	352,273
Community Services Block Grant	11,545	-	11,545
Independent Living Services for Older Individuals Who Are Blind	4,269	474	4,743
Social Security Disability Insurance	38,221	-	38,221
Social Services Block Grant	769,949	-	769,949
State Administrative Expenses for Child Nutrition	22,496	-	22,496
Supplemental Nutrition Assistance Program	269,989	269,989	539,978
Temporary Assistance for Needy Families	66,186	60,359	126,545
Vocational Rehabilitation	107,587	28,660	136,247
State Only Activities	-	-	-
Total	\$1,540,999	\$590,603	\$2,131,602

Amount Undercharged			
Medical Assistance Program	\$(327,943)	\$(327,943)	\$(655,886)
Total	\$(327,943)	\$(327,943)	\$(655,886)

As noted above in Condition B, \$549,898 of the questioned costs related to Condition B were resolved after the audit period; therefore, fiscal staff corrected the errors that led to \$549,898 of the questioned costs in **Table 4** above.

This finding, in conjunction with findings 2017-012, 2017-013, 2017-015, 2017-018, 2017-037, and 2017-040, results in total known federal questioned costs exceeding \$25,000 for a federal program which is audited as a major program. This finding, in conjunction with findings 2017-010, 2017-012, and 2017-015, results in total known federal questioned costs exceeding \$25,000 for a federal program which is not audited as a major program.

Concerning questioned costs, 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. Additionally, 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.

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 Department Controller should ensure that the Department of Human Services' cost allocation plan is appropriately applied and that calculations in cost allocation spreadsheets are accurate.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. 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

Condition A. Fiscal Staff Prepared Three Cost Allocation Tables Incorrectly

We concur in part.

The department concurs that the cost allocation tables for CR-1 and 9A-2 were not prepared in accordance with the cost allocation plan in effect for July 1, 2016, through March 31, 2017. As noted in management's response from prior audit finding 2016-015, the approach utilized resulted in a more equitable distribution of costs than would have occurred had the tables been prepared as described in the previous plan; therefore, the department does not concur with the associated questioned costs. The methodologies utilized for preparation of CR-1 and 9A-2 were incorporated into the approved cost allocation plan that became effective on April 1, 2017. In regards to table ACS-3, a journal entry to correct the error noted will be completed by April 30, 2018.

Condition B. Fiscal Staff Did Not Detect Errors in Cost Allocation Workbooks for Four Areas

We concur.

Errors in cost allocation spreadsheets were not detected and corrected in a timely manner. Fiscal services reorganized into functional areas on October 1, 2017. As part of the reorganization, the cost allocation unit has been staffed with five (5) individuals whose sole responsibility is to oversee the department's cost allocation functions. Additional staff will provide more layers of review to detect and correct any errors in allocation spreadsheets. Two (2) of the three (3) errors noted in the finding have already been corrected. A journal entry to correct the 3rd error noted will be completed by March 31, 2018.

Condition C. Fiscal Staff Used Incorrect Cost Allocation Tables to Allocate Costs for One Area

We concur.

Fiscal staff utilized the wrong table to allocate costs for one area. Errors related to first quarter were corrected on February 14, 2017. Errors related to the 2nd and 3rd quarter will be corrected by March 31, 2018.

Condition D. Risk Assessment

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A. Fiscal Staff Prepared Three Cost Allocation Tables Incorrectly

In management's comment, management states that "the approach utilized resulted in a more equitable distribution of costs than would have occurred had the tables been prepared as described in the previous 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 in effect from July 1, 2016, through March 31, 2017, would have resulted in less equitable allocations. Management was required to obtain the necessary data and allocate costs based on square footage and device counts for this time period, and no evidence was provided that indicated that doing so would have resulted in less equitable allocations.

Finding Number	2017-015
CFDA Number	10.558, 10.559, 10.560, 10.561, 84.126, 84.177, 93.464, 93.558, 93.563, 93.569, 93.667, 93.747, 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 Community Services Block Grant Social Services Block Grant Elder Abuse Prevention Interventions Program 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	201616N109945, 201717N109945, 201616N253345, 201717N253345, 201616IS251445, 201717IS251445, 8044 H126A160063, 8044 H126A170063, H177B160064, H177B170064, 1601TNSGAT, 1701TNSGAT, G1502TNTANF, G1602TNTANF, 1604TNCSES, 1704TNCSES, G15B1TNCOSR, G16B1TNCOSR, G1501TNSOSR, G1601TNSOSR, 90EJSG001001, 05-1505TN5ADM, 05-1605TN5ADM, 05-1705TN5ADM, and 8826 04-17-04TNDI00
Federal Award Year	2015 through 2017
Finding Type	Significant Deficiency (10.558, 10.559, 10.561, 84.126, 93.558, 93.563, and 93.778) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-016
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.558	201616N109945	\$5,054
10.559	201717N109945	\$674
10.560	201616N253345	\$574
10.560	201717N253345	\$5,798
10.561	201616IS251445	\$38,507

10.561	201717IS251445	\$19,380
84.126	8044 H126A160063	\$2,010
84.126	8044 H126A170063	\$926
84.177	H177B160064	\$155
84.177	H177B170064	\$2,829
93.464	1601TNSGAT	\$6
93.464	1701TNSGAT	\$83
93.558	G1502TNTANF	\$2,469
93.558	G1602TNTANF	\$9,662
93.563	1604TNCSES	\$12,629
93.563	1704TNCSES	\$72,804
93.569	G15B1TNCOSR	\$7
93.569	G16B1TNCOSR	\$70
93.667	G1501TNSOSR	\$15,274
93.667	G1601TNSOSR	\$20,876
93.747	90EJSG001001	\$460
93.778	05-1505TN5ADM	\$574
93.778	05-1605TN5ADM	\$442
93.778	05-1705TN5ADM	\$5,087
96.001	8826 04-17-04TNDI00	\$892

As noted in the prior two audits, fiscal staff for 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 \$217,242

Background

Federal regulations require the state to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate all costs to all programs the Department of Human Services (DHS) administers. The Department of Finance and Administration (F&A) creates, submits, and implements the cost allocation plan on DHS' behalf. DHS had two cost allocations plans that were effective during the audit period, July 1, 2016, through June 30, 2017. The first cost allocation plan was effective starting July 1, 2014, and was in effect until April 1, 2017, when the second cost allocation plan became effective.

F&A's method for allocating personnel costs to federal and state programs varies depending on whether the approved cost allocation plan identifies personnel costs as direct or indirect costs. Direct costs are costs that can be identified specifically with a particular final cost objective (a cost objective is a function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred). Indirect costs are costs that are incurred for a common or joint purpose benefiting more than one cost objective and that 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.

Federal Documentation Requirements

Federal grant awards 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. Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed and that are incorporated into the state’s official records. 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 state on an integrated basis; reflect the total activity for which the employee is compensated; and comply with the state’s established accounting policies and practices.

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

While most of the federal programs DHS administers were subject to the Uniform Administrative Guidance during the audit period, the Child Care and Development Fund (CCDF) was not. For this federal program, the federal grantor has not established specific federal documentation requirements for personnel costs. Instead, federal regulations require CCDF’s fiscal control and accounting procedures to be sufficient to permit the tracing of funds (in this case funds used for personnel costs) to a level of expenditure adequate to establish that such funds have not been used in violation of program requirements.

Payroll Procedures

Generally, all staff working in a division of DHS have their payroll costs allocated to one or more federal or state programs using the same methodology. For these employees, fiscal staff can allocate costs for all employees in the division at once, rather than track specific individuals’ job assignments and charge programs accordingly.

In contrast, for employees who work on a temporary assignment in another division or who have recently moved from one division to another, fiscal staff perform a process to remove the employees’ payroll costs from the employees’ original divisions and reallocate the costs to the correct divisions. Specifically, fiscal staff periodically send out employee lists to division managers asking them to identify any staff assignment changes for their division. If the managers note any changes, fiscal staff include the applicable employee in the personnel exceptions list. Each quarter, fiscal staff reallocate payroll costs for employees on the personnel exceptions list to the appropriate federal or state programs.

For the personnel exceptions process to work effectively, it is critical that the employee list sent to each division manager is either based on or reconciled to a list of the employees whose payroll costs are actually charged to the manager’s division. For example, the employee list sent to a division manager may correctly indicate that an individual is working on the Vocational

Rehabilitation program, but the accounting system may improperly charge the employee's time to a different federal program. Unless the information in the payroll records and the employee lists is reconciled, fiscal staff cannot detect and correct errors such as this, which would result in improper payroll charges.

Audit Procedures

To determine whether 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 \$10,768, from the population of 2,400,636 personnel cost transactions, totaling \$168,739,446, incurred during the audit period and charged to the federal programs listed in **Table 1**.

Table 1
Personnel Expenditures for Major Programs Under Audit

Program	Total Transactions Count	Total Expenditures
Child and Adult Care Food Program	2,709	\$ 683,685
Child Care and Development Fund	346,304	16,847,938
Child Support Enforcement	159,763	10,339,984
Summer Food Service Program for Children	3,353	119,782
Supplemental Nutrition Assistance Program	828,049	97,594,232
Temporary Assistance for Needy Families	791,572	20,659,732
Vocational Rehabilitation Grants to States	268,886	22,494,093
Grand Total	2,400,636	\$168,739,446

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

In the prior audit, we found that management did not ensure personnel costs were supported by adequate documentation, and we found that fiscal control procedures for CCDF were insufficient. We also found that Child Support Enforcement (CSE) funds were used for unallowable activities. Management concurred in part with the prior-year finding and stated,

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.

In this year's audit, we found that F&A's fiscal staff implemented the corrective actions identified above, which resulted in fewer errors. Although there was an overall reduction in errors, we found that fiscal staff still did not have adequate documentation to support payroll costs charged to federal awards (including errors related to the implementation of the electronic time reporting system). We also found that CSE funds were again used for unallowable activities.

Summary of Conditions

Based on our testwork, we found that the F&A Department Controller did not ensure that charges to federal awards were based on adequate supporting documentation (see Condition A) and did not ensure that charges to the CSE program were for allowable activities (see Condition B), resulting in total questioned costs of \$348,044. Federal questioned costs were \$217,242; the remaining \$130,802 were state matching funds.

Condition A. Personnel Costs Were Not Supported by Adequate Documentation

Original Testwork

Based on our sample testwork, F&A's Department Controller did not ensure that personnel costs charged to federal awards were supported by adequate documentation for 2 of 80 personnel cost expenditures tested (2.5%). The issues were due to charging payroll amounts for an employee to the incorrect department ID²³ in Edison and charging leave costs improperly for an employee on the personnel exceptions list.

Regarding the employee's payroll charged to the incorrect department ID, we anticipated that the personnel exception process would have detected and corrected this issue if the process was designed properly and operating effectively. Upon further review of the personnel exception process, we determined that the control was not designed properly. Specifically, the list of employees sent to division managers for confirmations of employees' assignments was based on a human resources staffing query, rather than a list of employees whose payroll costs were charged to the manager's division. In addition, fiscal staff had not established a process to reconcile an employee list per the payroll data to the list of employees based on human resources data. We used data analysis procedures to reconcile the two data sources and identify an additional \$344,995 in payroll costs charged to the incorrect department ID. See the Expanded Testwork section below.

Regarding improper leave charges, based on our discussion with fiscal staff and our review of records for employees whose time was supported by timesheets, we determined that fiscal 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 that the employee worked on other federal programs during the month. Specifically, we concluded that all non-working hours were generally 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 the Temporary Assistance for Needy Families (TANF) program, and CSE was the individual's primary work assignment, 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 fiscal staff's regular accounting practice until staff changed to the new Edison timesheet system beginning in April 2017.

²³ 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.

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.

Expanded Testwork

As a result of the errors noted in the original sample testwork related to the personnel exceptions list, we expanded our work to identify additional employees that were charged to the incorrect department ID and to test a sample of payroll costs charged through the personnel exceptions process. In addition, to follow up on the prior audit finding, we reviewed direct personnel costs that were charged to more than one federal award and reviewed fiscal staff’s implementation of the electronic timesheet process established to address prior audit findings.

Testwork for Payroll Costs Charged to the Incorrect Department ID

Because our original testwork suggested that the personnel exceptions process was not identifying staff whose payroll costs were charged to the incorrect department ID (and thus employees’ payroll costs were being charged to the incorrect federal and state programs), we performed a data analysis procedure to identify additional staff charged to the incorrect department ID.

Specifically, we were provided staffing query data (the same type of query information provided to division managers for staff assignment verifications) for January 1, 2017, through March 31, 2017. For each employee in the data, we compared the employee’s department ID per the staffing query data to the employee’s department ID per their payroll costs and identified a list of employees charged to the incorrect department ID by pay period.

We removed the employees from our list if the incorrect and the correct department IDs both charged costs to programs using the same methodology (and thus no program was overcharged due to the error). Finally, we compared our list to fiscal staff’s personnel exceptions list for January 2017 through March 2017 and removed any employees from our list who fiscal staff had already identified.

Our testwork identified a total of 70 staff (including 1 identified during our original testwork) whose payroll costs were charged to the incorrect department ID during the period January 1, 2017, through March 31, 2017, and who were not detected by the payroll exceptions process. The total amount of payroll costs charged to the incorrect department ID for these 70 individuals was \$344,995 during the period January 1, 2017, through March 31, 2017. While we could determine the total amount of payroll costs ultimately charged to various programs, we could not determine the amount of questioned costs for each applicable federal program, as the information needed to calculate the questioned costs associated with each affected program was based on each employee’s unique circumstances and was not readily available.

Sample Testwork for Payroll Costs Charged Through the Personnel Exceptions Process

To determine whether personnel costs charged through the personnel exceptions process were adequately supported and whether fiscal control procedures for personnel costs were sufficient,

we selected a random sample of 25 employees whose payroll costs were allocated through the personnel exceptions process and reviewed supporting documentation for their costs.

Based on our sample testwork, the F&A Department Controller did not ensure that personnel costs charged to federal awards through the payroll exceptions process were supported by adequate documentation for 20 of 25 employees tested (80%). The total amount of payroll costs charged through the personnel exception process during the period July 1, 2016, through June 30, 2017, as well as a summary of the errors identified in our testwork, are exhibited in **Table 2**.

Table 2
Summary Information of Personnel Exception Population and Sample by Program

Program Name	Population Total	Dollar Amount of Sample Items Tested	Dollar Amount of Errors	Error Rate
Assistive Technology	\$ 27,740	\$ 6	\$ 6	100%
Child and Adult Care Food Program	361,615	5,054	5,054	100%
Child Care and Development Fund	289,865	3,242	2,748	85%
Child Support Enforcement	361,340	49,393	45,094	91%
Community Services Block Grant	52,893	16	14	88%
Elder Abuse Prevention Interventions Program	59,519	499	451	90%
Independent Living Services for Older Individuals Who are Blind	957,109	36,935	2,691	7%
Independent Living State Grants	38,572	1,461	*(499)	-34%
Medical Assistance Program	189,671	14,778	11,058	75%
Social Security Disability Insurance	120,696	1,608	892	55%
Social Services Block Grant	148,995	50,178	36,150	72%
State Administrative Expenses for Child Nutrition	197,400	10,673	6,184	58%
Summer Food Service Program for Children	54,680	29,300	674	2%
Supplemental Nutrition Assistance Program	1,983,059	83,760	70,374	84%
Temporary Assistance for Needy Families	470,188	24,237	23,727	98%
Vocational Rehabilitation Grants to States	1,013,522	7,061	3,731	53%
Totals	\$6,326,864	\$318,201	\$208,349	

*This amount is negative due to the program being undercharged in error. We did not question any costs for this item.

The issues noted above were due to various problems, including

- not preparing and maintaining official records documenting employee activity, such as timesheets, certifications, or similar documentation;

- not ensuring that supporting documentation for personnel costs was supported by a system of internal control that provided reasonable assurance that the charges were accurate, allowable, and properly allocated, as required;
- charging costs to a single federal program even though the employees' timesheets indicated that they worked on multiple programs;
- charging costs to multiple federal programs without documentation demonstrating how much time employees spent on each activity;
- not reallocating employees' costs in accordance with the allocation percentages identified in the supporting documentation;
- using indirect cost allocation methodologies that were not approved in DHS' cost allocation plan; and
- calculating allocation percentages incorrectly.

Even though the sample errors for some programs noted in **Table 2** above are small dollar errors, when projected to the population and combined with additional known questioned costs described in this finding, as well as in Findings 2017-010, 2017-012, 2017-013, 2017-014, 2017-018, 2017-027, 2017-031, and 2017-040, 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. 2 CFR 200.516(a)(4) requires us to report known questioned costs that are greater than \$25,000 for a federal program that is not audited as a major program.

Review of Direct Personnel Costs Charged to More Than One Federal Award

For one employee whose payroll was charged to TANF, the Medical Assistance Program, and the Supplemental Nutrition Assistance Program, we found that fiscal staff did not ensure that \$53,713 in payroll costs related to the Family Assistance Disaster Relief division were supported by personnel activity reports, semi-annual certifications, or other documentation sufficient to support the distribution of personnel costs to federal programs. Instead of allocating these payroll costs to programs based on documentation supporting actual time and effort distributions, fiscal staff allocated these payroll costs based on random moment time sampling, which was not approved in DHS' cost allocation plan. We questioned costs related to this error. See **Table 3** below for more details.

Table 3
Payroll Costs Related to the Family Assistance Disaster Relief Division

Program	Federal Expenditures	State Expenditures	Total Expenditures
Medical Assistance Program	\$ 574	\$ 574	\$ 1,148
Supplemental Nutrition Assistance Program	22,700	22,700	45,400
Temporary Assistance for Needy Families	1,791	5,374	7,165
Totals	\$25,065	\$28,648	\$53,713

Review of Fiscal Staff's Implementation of the Electronic Timesheet Process

Beginning April 2017, in select areas of DHS, fiscal staff implemented a new process that involved employees using Edison, the state's accounting system, to submit electronic timesheets that include sufficient information to support a distribution of costs to various programs. In the prior-year finding, we reported that these timesheets lacked sufficient documentation to support a distribution of costs to multiple programs; however, based on our observations in the current audit, the timesheets now include sufficient information for the staff who transitioned to the new process.

We reviewed the divisions' allocation of charges to federal programs using the new process and noted that, in some cases, employees reported their leave hours as a federal program activity instead of a leave activity. As a result, fiscal staff did not allocate the employees' leave and holiday pay equitably to all federal programs the employee worked on for the applicable pay period. We calculated the correct leave allocations for all employees using Edison task profile timesheets and compared our calculations to the actual amounts fiscal staff allocated. We noted that, during the period April 1, 2017, through June 30, 2017, federal programs were overcharged \$1,121 out of the \$94,326 in leave costs charged to federal programs using the new process. We questioned the overcharges to federal programs. See **Table 4** below for a full list of the differences:

Table 4
Overcharges (Undercharges) by Federal Program Due to Leave Allocation Errors

Federal Program	Federal Expenditures	State Matching Expenditures	Total Expenditures
Amount Overcharged			
Assistive Technology	\$ 83	\$ -	\$ 83
Community Services Block Grant	63	-	63
Elder Abuse Prevention Interventions Program	122	41	163
Independent Living Services for Older Individuals Who Are Blind	562	62	624
State Administrative Expenses for Child Nutrition	188	-	188
Total	\$1,018	\$ 103	\$ 1,121
Amount Undercharged			
Independent Living State Grants	\$(164)	\$ (18)	\$ (182)
Medical Assistance Program	(99)	(99)	(198)
Social Security Disability Insurance	(30)	-	(30)
Social Services Block Grant	(216)	-	(216)
Vocational Rehabilitation	(391)	(104)	(495)
Totals	\$(900)	\$(221)	\$(1,121)

Criteria

According to "Uniform Administrative Guidance," 2 CFR 200.430(i)(1), charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, and these records must (1) be supported by a system of internal control which provides reasonable

assurance that the charges are accurate, allowable, and properly allocated; and (2) be incorporated into the official records of the non-Federal entity.

Furthermore, 2 CFR 200.430(i)(1)(vii) also states that 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, is only allowable if the costs are equitably allocated to all related activities, including federal awards.

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 effectively extends to all programs administered by state public assistance agencies by Section C, Appendix VI, of 2 CFR 200, 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.

CCDF is not subject to the cost principles in Subpart E of the Uniform Administrative Guidance. Instead, 45 CFR 98.67(c)(2) states that fiscal control and accounting procedures must be sufficient to permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of CCDF regulations.

Cause

Testwork for Payroll Costs Charged to the Incorrect Department ID

Based on our discussion with fiscal staff, fiscal staff were not aware that information in the staffing query and information in the payroll records needed to be reconciled.

Sample Testwork for Payroll Costs Charged Through the Personnel Exceptions Process

Regarding inadequate documentation related to the personnel exceptions process, we noted that this issue was primarily the result of a lack of standard documentation practices for the process and a reliance on informal spreadsheets. Based on our review of the documentation, fiscal staff appeared to be preparing these informal spreadsheets rather than ensuring that the appropriate staff within DHS—such as the relevant employees or their supervisors—provided the documentation needed to support the payroll charges.

Review of Direct Personnel Costs Charged to More Than One Federal Award

Regarding improper charges related to the Family Assistance Disaster Relief division, for the period of July 2016 to March 2017, fiscal staff continued allocating the payroll costs of employees

in some areas based on predefined percentages or other incorrect bases. This issue was corrected as of April 1, 2017, when DHS implemented a new cost allocation plan.

Review of Fiscal Staff's Implementation of the Electronic Timesheet Process

Regarding incorrect charges for leave related to the new timesheet process, employees did not appear to be adequately trained to ensure they entered their leave correctly, and fiscal staff had not established a process for identifying and correcting these errors.

Questioned Costs

We questioned \$161,571 in federal costs and \$102,111 in state matching funds, for a total of \$263,682 in questioned costs. See **Tables 2** through **4** above for total questioned costs by program.

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

F&A's Department Controller did not ensure that charges to the CSE program were for allowable activities. Specifically, fiscal staff charged to the CSE program \$84,350 in costs for general administrative training provided through the Office of Learning and Professional Development (OLPD). 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 45 CFR 304.23(d), federal financial participation for CSE is not available for

Education and training programs and educational services for State and county employees and court personnel except direct cost of short-term training provided to IV-D agency staff in accordance with §§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 on a full- or part-time basis to support enforcement functions under certain cooperative agreements].

Cause

DHS' approved cost allocation plans indicated that CSE funds may not be used for general administrative training provided through OLPD; therefore, the fiscal staff responsible for preparing the cost allocation plans were aware of this compliance requirement for CSE. Although the revised cost allocation plan, effective April 1, 2017, stated that "OLPD costs allocable to Child Support will be paid for out of State funds rather than Title IV-D consistent with 45 CFR 304.23(d)," fiscal staff continued to allocate OLPD costs to the CSE program.

Questioned Costs

We questioned \$55,671 of unallowable federal costs charged to the CSE program and \$28,679 in state matching costs, for a total of \$84,350.

Condition C. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed DHS' November 2016 Financial Integrity Act Risk Assessment. We determined that management did not document the mitigating controls associated with the risk that costs charged to a federal program are not allowable under program regulations in the annual risk assessment. Management documented in the annual risk assessment that there was a small impact and a remote (low) likelihood that costs charged to a federal program are not allowable under program regulations. Given the impact and frequency with which we identified noncompliance with the allowable costs/cost principles requirements in the current and prior audits, we concluded that management should have assessed the impact as high and the likelihood as probable (high) and included a control activity to mitigate the risk in the annual risk assessment.

Effect

Condition A

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.

Condition B

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.

All Conditions

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.

Summary of All Questioned Costs and Other Required Reporting

All Questioned Costs

Condition	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
Personnel Costs Not Supported by Adequate Documentation (Condition A)	\$161,571	\$102,123*	\$263,694*
CSE Funds Used for Unallowable Activities (Condition B)	\$ 55,671	\$ 28,679	\$ 84,350
Totals	\$217,242	\$130,802	\$348,044

*Includes amounts in the Other Required Reporting section below.

This finding, in conjunction with findings 2017-010, 2017-012, 2017-013, 2017-014, 2017-018, 2017-026, 2017-027, and 2017-029 (which also included federal questioned costs for the allowable costs/cost principles federal compliance requirement), results in total known federal questioned costs exceeding \$25,000 for a type of compliance requirement for five major federal programs. 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.

This finding, in conjunction with findings 2017-010, 2017-12, 2017-013, and 2017-014, results in total known federal questioned costs exceeding \$25,000 for two federal programs that are not audited as major programs. 2 CFR 200.516(a)(4) requires us to report known questioned costs that are greater than \$25,000 for a federal program that is not audited as 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.

Other Required Reporting

In order to fulfill our reporting responsibilities under 2 CFR 200.516, we are also required to include the following information in this finding.

See Table 5 below for a summary of the sample errors identified in the “Original Testwork” section above:

Table 5
Summary of Sample Testwork Errors

Program	Population Total	Dollar Amount of Sample Items Tested	Dollar Amount of Error in Sample	Error Rate in Sample
SNAP	\$97,594,232	\$4,787.54	\$0.46	0.01%
TANF	\$20,659,732	\$1,679.30	\$11.04	0.66%
Grand Total	\$118,253,964	\$6,466.84	\$11.50	

Even though the sample errors noted in Table 5 above are small dollar errors, when projected to the population and combined with the additional known questioned costs described in this finding as well as Findings 2017-10, 2017-12, 2017-013, and 2017-014, the likely 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.

Recommendation

F&A’s Commissioner should ensure adequate documentation of personnel costs, such as periodic certifications and personnel activity reports, is maintained unless the cognizant federal agency approves a substitute method. The Commissioner should also ensure that staff do not use CSE funds for general training costs and correctly allocate costs based on appropriate supporting documentation.

DHS’ Commissioner should assess all significant risks, with sufficient attention to the impact and likelihood of the risk. 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

Condition A:

We concur in part.

Payroll Costs Charged to the Incorrect Department ID

Based on review of supporting documentation for the 2 errors out of 80 noted, the questioned costs pertaining to these items amounted to \$11.50. While the projected amount would exceed \$25,000 and result in a reportable condition, the expansion of testwork appears broad given that it was largely focused on the time period prior to management's corrective actions that took place on April 1, 2017. Based on review of support for the expanded testwork items, management found no issue with over half of them. For the remaining items, the underlying cause was due to the lack of a reconciliation process between staffing pattern information and payroll information. A process to reconcile these two items will be developed by June 30, 2018.

Payroll Costs Charged Through the Personnel Exceptions Process

Management does not agree with the underlying premise leading to many of the issues noted. Many of the individuals noted as issues were allocated as aggregate allocations of support staff time or other departmental allocation statistics and, therefore, would not require timesheets that identified separate activities. Two timesheets were prepared by employees; however, they failed to sign them. This problem has already been corrected since Edison timesheets require employee submission and supervisor approval. The remaining items noted were a result of an outdated cost allocation plan as well as the underutilization of labor distribution functionality in Edison. These items were addressed with the April 1, 2017, cost allocation plan and related Edison timesheet utilization.

Review of Direct Personnel Costs Charged to More Than One Federal Award

A timesheet is kept for all employees that work for the department. Prior to April 1, 2017, the Edison timesheet was only sufficient documentation for charging programs allocated using statistics outside of Edison or employees working on one federal program. Supporting documentation for employees working on multiple programs was maintained outside of Edison. Revisions to the Edison system that took effect on April 1, 2017, allow all employees to adequately report their time by program in Edison. In this instance, the employee was allocated by a table; therefore, documentation was sufficient to support their time allocation. Management agrees that the allocation was not in accordance with the 2014 plan. The April 1, 2017 plan aligned management's practices for allocating this time with the approved cost allocation plan.

Review of Fiscal Staff's Implementation of the Electronic Timesheet Process

The department agrees that staff charged an immaterial amount of leave time to the incorrect taskprofile IDs. While the errors appear to simply be a learning curve related to the new process

implemented in April 2017, fiscal services has implemented additional controls during the first quarter of state fiscal year 2018. Department IDs that should not have leave recorded in them are reviewed prior to running the department's cost allocations. If any leave is detected in non-leave department IDs, the costs are moved to leave department IDs and then cost allocation is performed.

Condition B:

We do not concur.

Costs charged to child support were for training provided directly to child support employees. Management strongly believes that the administrative training conducted by the department is essential for child support employees to understand how to use state systems and follow state policies during the administration of their duties as child support employees, and is therefore an allowable activity. The approved April 1, 2017 cost allocation plan clearly states that "Costs related to time spent on general administrative training are allocated to all benefiting programs based on filled full and part-time positions (including overlapping appointments) at the end of the prior quarter."

Risk Assessment

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A. Personnel Costs Were Not Supported by Adequate Documentation

Payroll Costs Charged to the Incorrect Department ID

Management states that based on its "review of support for the expanded testwork items, management found no issue with over half of them." Management sent us an email indicating why it believed that many of the issues noted were not an issue; however, management's comments and inquiries in the email indicated that management had not reviewed all of the details provided. We requested that management review the details and then schedule a meeting with us to discuss the items management still believed were not problems, but management did not follow up with us to resolve the items in question.

Payroll Costs Charged Through the Personnel Exceptions Process

Management states, "Many of the individuals noted as issues were allocated as aggregate allocations of support staff time or other departmental allocation statistics and therefore, would not require timesheets that identified separate activities." These issues were not noted due to a lack of timesheets. Instead, we noted issues for these staff for a variety of reasons, including

1. the allocation methodologies were not in accordance with the department's cost allocation plan;
2. fiscal staff did not allocate costs in accordance with the allocation percentages identified in supporting documentation;
3. fiscal staff provided allocation statistics for divisions without evidence that the employees actually worked in those divisions; and
4. internal controls over payroll were inadequate, because employees' activities were documented on spreadsheets with no indication of who prepared them or when they were prepared.

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

Although management states, "Costs charged to child support were for training provided directly to child support employees," the questioned costs were indirect costs charged to the Child Support Enforcement program and all other programs administered by the department. This distinction is important, because while direct costs are allowable in certain circumstances, indirect costs associated with training programs are not allowable.

Regarding management's comment that it "strongly believes that the administrative training . . . is essential for child support employees . . . and is therefore an allowable activity," we must use federal criteria to determine the allowability of a cost, not management's belief. As stated in 45 CFR 304.23(d), federal funding is not available for education and training programs and educational services except for the "**direct cost** [emphasis added] of short-term training provided to IV-D agency staff" related to specific program activities. Since the costs we questioned were indirect costs related to general administrative training, the costs were not allowable.

The federal government's approval of a cost allocation plan that is inconsistent with program-specific regulations does not authorize the state to waive said regulations.

Finding Number	2017-016
CFDA Number	10.561, 93.563, and 93.596
Program Name	Supplemental Nutrition Assistance Program Cluster Child Support Enforcement 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	2015IQ390345, 201616IS251445, 201717IS251445, 1604TNCSES, 1704TNCSES, G1601TNCCDF, and G1701TNCCDF
Federal Award Year	2015 through 2017
Finding Type	Material Weakness (10.561, 93.596) Noncompliance
Compliance Requirement	Cash Management
Repeat Finding	2016-018
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, fiscal staff for 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 Finance and Administration (F&A) is responsible for adequate cash management for all of the Department of Human Services' (DHS) grant awards. 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. F&A operates all of DHS's 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 fiscal staff use 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.

Cost Allocation Funding Technique

One of the TSA's funding techniques that fiscal staff use to draw down federal funds is known as the "Cost Allocation – Actual Costs – Estimated Allocation (Modified)" (Cost Allocation) funding technique. This technique requires fiscal staff to use allocation percentages from the prior period to calculate an estimate of costs to allocate to the programs. The TSA requires fiscal staff 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 DHS worked 20% of their time on Supplemental Nutrition Assistance Program (SNAP) administrative activities during March, then F&A projects (that is, F&A estimates or forecasts based on present trends) that 20% of the April payroll for these employees will be charged to SNAP. Therefore, if April 1 payroll costs are \$100, fiscal staff would draw down \$20 in SNAP funds based on this projection.²⁴ 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 SNAP during April.

Per 31 CFR 205.2, an estimate is defined as “. . . a projection of the needs of a Federal Assistance Program.” We concluded that the Cost Allocation funding technique included an estimate as defined by 31 CFR 205.2. As indicated in the example above, this funding technique involves projecting the current cash needs of a program by multiplying today's actual costs by a prior period's allocation percentage for the program. Estimates are required to be clearly described in the TSA.

In the prior audit, we found that fiscal staff did not ensure that

- prior period allocation percentages were used to calculate the amount of federal drawdowns,
- 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 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.

Based on current testwork performed, we found that fiscal staff still did not comply with cash management requirements.

²⁴ This example assumes no matching requirements apply for SNAP and that prior period is defined as the prior month.

Summary of Conditions

We selected a random, nonstatistical sample of 60 expenditure transactions, totaling \$104,749, from a population of 2,190,994 transactions, totaling \$509,548,708, for the Child and Adult Care Food Program (CACFP), the Child Care and Development Fund Cluster (CCDF), Child Support Enforcement (CSE), the Summer Food Service Program for Children (SFSP), the Supplemental Nutrition Assistance Program (SNAP), and Rehabilitation Services – Vocational Rehabilitation Grants to States (VR) programs for the audit period July 1, 2016, through June 30, 2017. See Table 1 for the breakdown of the total transactions and amounts for each federal program. Due to the extent of the issues noted for CCDF and SNAP, we expanded our review to include an additional 661,843 SNAP and 251,376 CCDF expenditure transactions, totaling \$100,632,615 and \$5,455,609, respectively, for the nine departmental divisions represented in the sample.

Table 1
Federal Share of Expenditures by Program

Program	Expenditures	Transactions
CACFP	\$69,248,708	12,009
CCDF	129,044,182	583,711
CSE	88,245,325	203,490
SFSP	12,493,034	5,095
SNAP	153,754,039	949,402
VR	56,763,420	437,287
Total	\$509,548,708	2,190,994

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 estimated cost allocations within 45 days (Condition B);
- adjust drawdowns according to the approved cost allocation tables (Condition C); and
- draw down federal funds timely (Condition D).

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

Based on our initial testwork, for 18 of 18 SNAP expenditures (100%), totaling \$1,892, and 3 of 15 CCDF expenditures (20%), totaling \$41 of \$7,293, we found the department's fiscal staff did not draw down federal cash in compliance with the Cost Allocation funding technique specified in the TSA. Specifically, for all these expenditures, we found that fiscal staff did not use the prior period's actual allocation percentages to calculate the estimated amount of federal funds to be drawn down. Even though fiscal staff prepared the correct allocation percentages needed to draw down federal funds in accordance with the TSA, fiscal staff did not use the correct percentages

when drawing down federal funds. Based on the results of our testwork, we expanded our review to include all expenditures for the year for the nine internal departmental divisions that were included in our sample testwork and affected by the errors above.

To determine the significance of this condition, we recalculated the estimated draws for each federal program using the correct allocation percentages (that is, the prior periods' allocation percentages). Even though only CCDF and SNAP were subject to the Cost Allocation funding technique, we expanded our testwork and recalculated the estimated expenditures for all federal programs, because the amount of cash draws for the other programs were also affected by fiscal staff's use of incorrect allocation percentages. For eight of nine divisions, we were able to determine the impact of fiscal staff's method compared to ours for the federal programs for the entire audit period. For the ninth division, we were only able to determine the impact for April 2017 through June 2017, as explained further below. The impact for all nine divisions is presented in Table 2.

Table 2
Impact of Incorrect Prior Period Allocation Percentages

Programs	Impact on Federal Draw*
Child and Adult Care Food program (CACFP)	\$(478,086)
Child Care and Development Fund (CCDF)	894,929
Community Services Block Grant (CSBG)	39,746
Child Support Enforcement (CSE)	17,627
Independent Living Services for Older Individuals Who Are Blind (ILOB)	(31,719)
Medical Assistance Program (MAP)	(1,576,076)
State Administrative Expenses for Child Nutrition (SAE)	588,765
Social Security Disability Insurance (SSDI)	(486,709)
Social Services Block Grant (SSBG)	(167,793)
Summer Food Program (SFSP)	(196)
Supplemental Nutrition Assistance Program (SNAP)	677,067
SNAP Trafficking Prevention Grants (SNAPT)	532,434
Vocational Rehabilitation (VR)	(538,721)
Total	\$(528,732)[†]

*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.

[†]The negative total amount indicates that an excessive amount of estimated expenditures was charged to state funding sources, resulting in the state requesting less federal funds than it should have.

For the ninth division (used to allocate state leasing expenditures) we were unable to determine the effect of fiscal staff using incorrect allocation percentages for the period July 2016 through

March 2017 because staff had created the original cost allocation tables for the division using an inappropriate methodology for the period, and thus, we could not calculate the impact for July 2016 through March 2017. This error is discussed further in Finding 2017-014.

Effective April 1, 2017, fiscal staff implemented a new cost allocation plan. This new plan changed the cost allocation method for the ninth division, and fiscal staff created new tables in accordance with the cost allocation plan. Because of this new plan, we were able to rely on these cost allocation tables to perform our impact calculations for this division for the period April 2017 – June 2017. The results are included in Table 2 above.

We believe these errors occurred because fiscal staff did not have adequate processes in place to identify their own noncompliance with the Cost Allocation funding technique.

Other Testwork Results – Noncompliance with TSA Requirements

We found that fiscal staff used three different definitions of “prior period” to calculate table percentages used to make federal draws during our audit period, apparently because the TSA did not clearly define “prior period.” Specifically, we found that the Cost Allocation funding technique represented an estimate, but the estimate methodology described in the TSA did not include a clear indication of the data used, the sources of the data, the development process, or when and how the state will update the estimate to reflect the most recent data available, as required by 31 CFR 205.9(d) for estimates. We concluded that this lack of clarity in the TSA contributed to fiscal staff using three definitions of “prior period” during the audit period.

The Department Controller was unable to tell us how the department defined “prior period” for July through September 2016 because the method was implemented by the former DHS fiscal staff before F&A assumed responsibility for the DHS fiscal operations. Until such time that the Department Controller and his staff could evaluate the entire cash management process, they had to continue to use previous management’s methodology. For October 2016 through March 2017, the Department Controller and fiscal staff decided to use the allocation statistics of the prior state fiscal year to determine the amount of funds to draw down. Then, in April of 2017, the Department Controller defined the prior period’s allocation statistics as “. . . the most recent quarterly Edison expenditure data available at the time the cost allocation plan is certified,” and fiscal staff began using this new definition to draw down federal funds without amending the TSA.

For the purposes of the testwork described above, we used the April 2017 definition of prior period, because the Department Controller indicated that F&A would retroactively amend the TSA to reflect the new definition for the entire audit period.

Condition B. Failure to Adjust Estimated Cost Allocations Timely

Based on our initial sample testwork, we found that for 3 of 15 CCDF expenditures (20%), totaling \$41 of \$7,293, and 13 of 18 SNAP expenditures (72%), totaling \$1,813 of \$1,892, we found that the accountants did not adjust the estimated allocations to actual within the 45 days after the end of the quarter as required for the Cost Allocation funding technique. The accountants performed the cost allocation adjustments for these expenditures between 14 and 28 days (average of 21 days) after the deadline of 45 days after the end of the quarter.

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

Cost allocation tables define the allocation methods fiscal staff use to assign costs to different cost objectives, including federal programs. Based on our sample testwork, we found that for 2 of 18 SNAP sample expenditures (11%), 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. Upon further review, we found that staff did not prepare table CR-1 properly to reflect DHS'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 2017-014 for more details.

As previously discussed, F&A updated the cost allocation plan effective April 1, 2017. This plan did not use Table CR-1 or 3 to allocate costs for state office building or county rental expenses. These costs were allocated via Table 1. Therefore, this condition only applied for the period July 1, 2016, to March 31, 2017, and was corrected for the period April 1, 2017, through June 30, 2017.

Condition D. Failure to Draw Down Funds Timely

On behalf of DHS, F&A fiscal staff are required to draw down federal funds timely based on the TSA (for federal programs covered by the agreement) or Title 31, Code of Federal Regulations, Part 205, Section 33(a) (for all other federal programs). The CFR requires F&A staff to minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The transfers must be made "as close as is administratively feasible" to the state's actual cash outlay.

Because federal regulations do not define the time period that constitutes "administratively feasible," our assessment of whether fiscal staff performed drawdowns timely was based on fiscal staff's historical practices. Specifically, based on our prior audit sample testwork, we had determined that fiscal staff generally drew federal funds on average in 7.4 days for the programs in our current audit's scope and subject to 31 CFR 205.33(a). For the purpose of determining whether a drawdown was performed "as close as is administratively feasible," to fiscal staff's disbursements of cash, we considered a drawdown to have been performed timely if fiscal staff requested the funds within 15 days of the transaction's payment date.

Based on our current testwork, we found that fiscal staff did not request federal funds for 4 of 10 CSE expenditures (40%), totaling \$1,960 of \$6,178 tested, until more than 15 days after the expenditure was paid. Fiscal staff requested federal funds for the expenditures between 20 and 159 days after the expenditures were paid, with an average of 98 days after the expenditures were paid.

Condition E. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the DHS's November 2016 Financial Integrity Act Risk Assessment and determined that top management included the risk that the timing of federal cash draws are not in compliance with the TSA; however, management assessed the likelihood of the risk's occurrence as remote. Because this is the third year we have noted a finding due to noncompliance with the TSA, we concluded that the likelihood should be

assessed as probable. We also noted that management did not address in the department's annual risk assessment the risks associated with not drawing down federal funds timely for programs not subject to the TSA.

Additional Information

In order to fulfill our reporting responsibilities under 2 CFR 200.516(b), we are required to include the following information in this finding.

Regarding Condition C above, we found that the accountant used the incorrect cost allocation table to allocate state office rent costs for a total of \$17 of \$1,892 of SNAP sample expenditures.

Criteria

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

Allocations (i.e. the actual allocation statistics used for the drawdowns) for the plan will be developed based on the most recent quarterly Edison expenditure data available at the time the cost allocation plan is certified. The aforementioned allocation statistics will remain in effect and continue to be used for purposes of drawdowns until such time as a new cost allocation plan is submitted. Subsequent adjustments made pursuant to the actual allocation of costs shall be made within 45 days of the end of a quarter.

For the Cost Allocation funding technique, Section 6.2.4 of the TSA that was actually in effect during the audit period stated,

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.

Title 31 CFR 205.9(d) requires each TSA to include the methods used to develop and maintain estimates. The method must include, at a minimum, a clear indication of

1. The data used;
2. The sources of the data;
3. The development process;
4. For estimates, when and how the State will update the estimate to reflect the most recent data available;
5. For estimates, when and how the State will make adjustments, if any, to reconcile the difference between the estimate and the State's actual cash needs; and
6. Any assumptions, standards, or conventions used in converting the data into the clearance pattern or estimate.

According to 45 CFR 95.517(a), “a State must claim FFP [federal financial participation] for costs associated with a program only in accordance with its approved cost allocation plan.”

According to 31 CFR 205.33(a), “A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes,” and “The timing and amount of funds transfers must be as close as is administratively feasible to a State’s actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.”

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 to ensure F&A uses the correct allocation percentages. Based on our review of F&A’s speedchart information, fiscal staff did not ensure speedcharts matched these allocation percentages.

Based on discussion with fiscal staff, fiscal staff did not always perform cost allocation adjusting entries timely, because the cost allocation process was lengthy and time consuming, and required many members of staff and management to create and approve cost allocation entries in accordance with applicable federal requirements.

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. Based on review of 31 CFR 205.35, failure to draw down federal funds in accordance with 31 CFR 205.35 for CSE could result in the federal government requiring the state to include CSE in the TSA.

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

For programs subject to the Treasury State Agreement, the Commissioners of the Department of Finance and Administration and the Department of Human Services should ensure that accountants adjust the estimated drawdowns in accordance with the TSA and that estimated allocations are revised to reflect the results of the most recent allocation percentages. For programs subject to 31 CFR 205.33(a), the Commissioners should ensure that fiscal staff draw down all federal funds as close as administratively feasible to the state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

Condition A

We concur that the definition of prior period was not consistently applied during the audit period; however, the statistics being utilized throughout the period were technically always "prior period"

as required by the Treasury State Agreement (TSA) in effect during the audit period. Management believes the description of the subject funding technique in the current TSA is clear, reduces the risk of misunderstandings and incorrect interpretation upon audit, and meets all of the requirements of 31 CFR Part 205.

We do not concur that the methodology being utilized by management is an estimate. The grants administered by the department are on a reimbursement basis and costs have already been expended by the department when federal funds are requested. The department is not projecting cash needs but rather allocating incurred costs to federal awards based on historical information. These costs are then charged to the appropriate award based on the department's cost allocation plan. 31 CFR Part 205.18 describes clearly what may be agreed to in the TSA for indirect and administrative costs. In addition, 31 CFR Part 205 explains in the background information that the intent of this provision was to ease the burden on states of tracking administrative and indirect costs.

Management is also concerned that the interpretation of the regulations throughout this finding may be more rigid than the regulations intend, and that the cost of this rigid interpretation may be exceeding the benefit accruing to the federal government in terms of the objectives of the Cash Management Improvement Act. One of the foundational aspects of a Treasury State Agreement is to reduce the burden on states by providing greater flexibility in funding techniques. In addition, the three objectives of the Cash Management Improvement Act are:

- (1) Efficiency -- To minimize the time between the transfer of funds to the States and the payout for program purposes;
- (2) Effectiveness -- To ensure that federal funds are available when requested; and
- (3) Equity -- To assess an interest liability to the federal government and/or the States to compensate for the lost value of funds.

Considering these objectives, management calculated interest on the "impact of incorrect prior period allocation percentages" in Table 2 as if they had been outstanding for the entire year. We also included the non-TSA programs that are not subject to interest for comparability to the auditors' work. This approach provided the most conservative estimate of interest incurred by the state based on the auditors' work. The interest calculation resulted in an immaterial amount of interest due to the federal government.

Condition B

We concur.

Cost allocation entries should have been made timely. Corrective actions taken to date include:

- Cost Allocation Manager position created and filled December 2016;
- Fiscal Unit reorganized into functional areas including a cost allocation unit October 1, 2017. The unit is comprised of 5 individuals responsible solely for cost allocation duties; and

- CapPlus, the department's new cost allocation software, was utilized to allocate costs for the quarter ended September 2017.

Condition C

We do not concur.

Table CR-3 was the appropriate table to use to allocate costs for the 2 sample items noted. The auditors' support for these items identified them as county offices; therefore, the table for county office allocations was appropriate.

Condition D

We do not concur.

During the course of the year, the department receives program income and other funds that belong to the federal government. Instead of returning these funds to the federal government, the department is allowed to use them to cover expenditures incurred by the department. Occasionally, the amount owed back to the federal government exceeds expenditures incurred by the department. In these instances, the department must wait until expenditures meet or exceed the amount due to the federal government until action can be taken. The items noted in the finding were items that had to wait until enough expenditures were incurred by the department before processing them.

Auditor's Comment

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

Regarding management's comment that "The department is not projecting cash needs but rather allocating incurred costs to federal awards based on historical information," we can identify no functional difference between the two. In both cases, the current cash needs for the federal program are not known, so the non-federal entity uses historical information to forecast the amount of program funds to request and later adjusts those estimated drawdowns to actual allocations once actual cash needs are known. The fact that reconciliations to actual are periodically performed and the TSA language itself has historically referred to these as estimated drawdowns suggest that these are, in fact, estimates.

The TSA does not actually describe a methodology for calculating interest due to the noncompliance identified in this condition. In addition, based on review of the state's interest calculations related to this technique and the Director of Cash Management's statements, the state's interest calculation methodology does not include a calculation for interest when draws are not based on the appropriate prior period percentages. As such, it is not clear how fiscal management has performed a valid interest calculation related to this condition.

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

Per the cost allocation plan in effect for the period of July 1, 2016, through March 31, 2017, Table CR-3 was not the appropriate table to use for these sample items, because the costs were charged

to the cost allocation plan's "State Office Rent" activity, which used table CR-1. Fiscal staff used location codes to identify and accumulate facilities costs, rather than using the department ID and program code methodology described in the plan. Before drawing federal funds based on this new methodology, fiscal staff should have amended the cost allocation plan. Due to the department's amendment to the cost allocation plan, effective April 1, 2017, we do not anticipate this issue will recur.

Condition D. Failure to Draw Down Funds Timely

We initially met with fiscal management to discuss this condition on November 2, 2017. Fiscal management did not provide a cause or any further details about this condition until after the end of our field work, when we received management's written response to this finding. As a result, we were unable to verify management's comments regarding these items. We will follow-up on this matter during the next audit.

Finding Number	2017-017
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	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717IN20245, 201717N105045, and 201717N109945
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558)
Compliance Requirement	Subrecipient Monitoring Other
Repeat Finding	2016-019
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior three 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 repeated control and compliance deficiencies and substantial federal questioned costs

Background

The Department of Human Services (the department) 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. CACFP is a year-round program, and SFSP operates during the summer months when school is out. The department contracts with subrecipients, who administer the programs and deliver the meals to eligible participants. The department reimburses the subrecipients to cover the administrative costs and the costs of meals served.

Department's Responsibilities as a Grant Administrator

As a pass-through entity of federal funds, the department is responsible for providing overall program oversight, which includes, but is not limited to,

- approving only eligible subrecipients who comply with the federal program requirements and guidelines;
- providing appropriate and effective training, technical assistance, and any other necessary support to facilitate a successful program participation;

- designing effective controls to ensure subrecipients claim the correct number of meals and receive reimbursement payments for meals that are fully compliant with program requirements and guidelines;
- monitoring subrecipients' activities to provide reasonable assurance that the subrecipients administer these federal awards in compliance with federal requirements and guidelines; and
- maintaining the integrity of the food programs by taking appropriate and prompt actions to address subrecipients' noncompliance and unwillingness and/or inability to comply with the federal requirements and guidelines, which may include stricter oversight of the noncompliant subrecipients and, if necessary, terminating them from the program.

History of Prior Audit Results for Food Programs

Since 2014, we have reported to management the inadequacy of the food programs' administration and the need for a robust management overhaul, with an emphasis on strengthening controls within the monitoring and program oversight activities. In the prior three audits, we have reported the following number of findings, both for CACFP and SFSP, with corresponding questioned costs:

Single Audit Year	Number of <u>New</u> Findings	Number of <u>Repeat</u> Findings	Number of <u>Total</u> Findings	Total Questioned Costs Reported
2014	8	4	12	\$1,862,521
2015	10	5	15	\$11,481,981
2016	5	12	17	\$12,058,618
2017	0	10	10	\$6,205,794

Management's Steps to Address Prior-year Findings

In response to our prior-year findings, prior to the beginning of our audit fieldwork or during our fieldwork for the 2017 Single Audit, current management took the following steps to improve management's oversight of the programs:

- 1) In 2016, the department implemented the Tennessee Information Payment System (TIPS)—an online application that allows subrecipients to submit both applications to participate in the programs and reimbursement claims for administration and meals served. TIPS, which replaced the Tennessee Food Program (TFP), streamlined the claim reimbursement processes and added enhanced capabilities that TFP did not have. TIPS is also a record retention tool, eliminating the hard-copy retention system the department previously used.
- 2) In May 2017, the department implemented the Audit Command Language—software that replaced the previously used pen-and-paper system by providing electronic access to the working papers from any location and electronic records retention.
- 3) Top management has stated that they are committed to working with our office to improve the food programs and resolve findings. Overall, during the current audit we

noted that management has strengthened some controls and internal processes in comparison with previous years.

- 4) During fiscal year 2017, staffing levels for the department's auditors, monitors, and investigators assigned to the food programs have improved in comparison with the prior-year levels for the same quarter (see **Table 1**).

Table 1
Summary of Staffing Level Changes From the Previous Year

Staffing Levels for Internal Audit (Auditors), Audit Services Unit (Monitors), and Investigators					Improvement in Staffing Levels in Comparison with the Same Quarter of the Prior Year
	Positions Vacant	Percent Vacant	Positions Vacant	Percent Vacant	
	September 2015		September 2016		
Auditors	15	60%	9	45%	+15%
Monitors	5	23%	4	13%	+10%
Investigators	18	23%	4	6%	+17%
	December 2015		December 2016		
Auditors	15	58%	9	45%	+13%
Monitors	6	29%	5	17%	+12%
Investigators	13	16%	3	4%	+12%
	March 2016		March 2017		
Auditors	14	54%	6	29%	+25%
Monitors	5	24%	3	11%	+13%
Investigators	5	7%	2	3%	+4%
	June 2016		June 2017		
Auditors	14	47%	3	38%	+9%
Monitors	2	9%	2	5%	+4%
Investigators	5	7%	2	3%	+4%

In addition to the improved staffing levels shown above, we noticed that the department has improved retention levels for key management positions directly responsible for the oversight of the administration of the food programs.

Condition and Cause

While we recognize management's positive steps toward corrective action, our current audit work resulted in repeated material weaknesses and significant deficiencies in internal controls over compliance with program requirements, as discussed in detail in separate findings in this audit report (see **Table 2**). These findings, when considered individually and as a whole, indicate that, despite the department's continuous efforts to address deficiencies, management still has work to do to establish proper oversight over its internal controls and processes, as well as those at the subrecipient level. With proper oversight, management is more likely to have reasonable assurance that both staff and subrecipients have reasonably complied with federal regulations.

All 10 findings involving the 2 food programs, as reported in the current audit report, are repeat findings. Management's steps thus far have not been sufficient or in place long enough to result

in a significant reduction in noncompliance and control deficiencies at the department and the subrecipient levels. During our discussions with management, we asked why management has been unable to correct the conditions noted; however, for the majority of the findings, management did not provide any comments to explain the recurring noncompliance in these programs.

Table 2
Summary of CACFP and SFSP Repeated Findings

Program	Finding	Finding Number	Questioned Costs
CACFP	Repeat - For the third year, the Department of Human Services has not established proper internal controls to ensure subrecipient agencies correctly calculated meal reimbursement claims	2017-018	\$211,277
CACFP	Repeat - For the fourth year, the Department of Human Services had inadequate internal controls over subrecipient eligibility determinations	2017-019	\$5,284,102
CACFP	Repeat - For the fifth 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	2017-020	\$8,771
CACFP	Repeat - As noted in the prior audit, the Department of Human Services did not ensure that subrecipients were properly reimbursed for commodities	2017-021	\$0
CACFP	Repeat - For the fourth year, the Department of Human Services did not ensure sponsoring organizations performed adequate monitoring of their feeding sites	2017-022	\$0
CACFP/SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not always communicate all subaward information to subrecipients as required by federal regulations	2017-023	\$0
CACFP/SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not comply with federal billing requirements to recoup disallowed costs	2017-024	\$0

Program	Finding	Finding Number	Questioned Costs
SFSP	Repeat - For the fourth consecutive year, the Department of Human Services did not ensure that Summer Food Service Program for Children subrecipients served and documented meals according to established federal regulations	2017-025	\$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/or that sponsors claimed meals and received reimbursements in accordance with federal guidelines	2017-026	\$51,019
SFSP	Repeat - As noted in the prior audit, the Department of Human Services did not ensure that subrecipients accurately claimed meals served to children	2017-027	\$650,625
Total			\$6,205,794

We identified the following as key contributing factors for the 10 repeat findings shown in this report:

- management's inability to achieve acceptable and satisfactory corrective action for the continuous noncompliance and weak internal controls;
- weak preventive internal control processes;
- weak detective internal control processes; and
- information system design deficiencies.

Management's Inability to Achieve Acceptable and Satisfactory Corrective Action for the Continuous Noncompliance and Weak Internal Controls

As evidenced by the repeat findings in the current audit period, the department has not yet implemented effective controls and adequate processes to prevent noncompliance or minimize it to an acceptable level. All 10 findings reported in the current audit report are repeat findings, with some reported for the third, fourth, or even fifth consecutive year. While we noted that the department has taken steps to address findings reported in the prior years, we continue to note weaknesses associated with repeat noncompliance and insufficient internal controls.

Weak Preventive Internal Control Processes

Training

As noted in management's comments to prior audit findings, management relies heavily on training to change the actions of noncompliant subrecipients. We determined, however, that although management continues to provide training to the subrecipients, the same subrecipients continue to be noncompliant from year to year. This suggests that management's training is either insufficient and/or ineffective to bring subrecipients into compliance.

TIPS' Controls

Management's implementation of the TIPS application has contributed to an overall noteworthy improvement of the food programs in comparison to the prior years, mainly because it automates and standardizes certain administrative processes. However, management has not yet fully utilized all tools and controls available within TIPS, such as

- using extensive analytical procedures to identify questionable patterns, such as questionable meal reporting practices;
- tracking program-related information, such as billing notices for recovery payments associated with disallowed costs; or
- lowering limits on the number of meals sponsors can claim per site, thus reducing the occurrence of errors and fraud at feeding sites.

Management Allowed Bad Actors to Participate in Food Programs Without Further Scrutiny

In the prior-year audit report, we identified subrecipients who exhibited questionable practices and apparently lacked business integrity while participating in the food programs. Some of the questionable practices included reporting or claiming unreasonably high meal counts; claiming the same number of meals for each day of the month; and/or claiming lower meal counts on days monitored either by us or the department than the meal counts on other days.

Despite our warnings and identified red flags from prior years, the department allowed these high-risk subrecipients to participate in the food programs during our current audit period without additional scrutiny or stricter oversight, and yet again, we found evidence of questionable meal reporting practices resulting in high questioned costs.

Weak Detective Internal Control Processes

Weak Monitoring Review Practices and Management's Reception of Objective Feedback

We accompanied monitors during monitoring reviews in order to obtain an understanding of the monitoring processes in the both food programs. We noticed inconsistent approaches with different monitoring staff, weak monitoring review practices, and instances of monitors' lack of program knowledge. In an effort to share our audit techniques for dealing with high-risk subrecipients, we shared our observations with the Director of Audit Services, who did not accept

our feedback in a positive way and use it as an opportunity to improve the monitoring processes for fraud risks.

Weak Monitoring Follow-up on Inconsistencies and Questionable Practices

We noted that Audit Services Unit management has performed expanded reviews on certain subrecipients exhibiting questionable practices; however, the expanded reviews focused on compliance and did not adequately scrutinize questionable or red flag patterns to determine whether the subrecipients were committing fraud.

During the current audit, we continued to identify subrecipients that submitted claims with fraud indicators, which we communicated to management. In response to our fraud discussion, management referred to these questionable claims as subrecipients' errors or lack of knowledge, with additional training as a follow-up step. Management's decision to characterize these questionable claims as errors rather than potential fraud risks continues to hinder the department from effectively addressing the continuing fraud, waste, abuse, and noncompliance at the subrecipient level. As a result, management in effect is making it easy for ill-intended subrecipients to commit fraud or to continue waste, abuse, and noncompliance without negative consequences.

Information Systems Design Deficiencies

Tennessee Information Payment System

Even after the implementation of TIPS, which management believed would help resolve these long-standing findings, we continue to identify conditions of noncompliance and control deficiencies in both SFSP and CACFP. While TIPS' edit checks detect when sponsors overclaim meals over the maximum approved, the subrecipients' responsibility to accurately calculate meals and maintain accurate and complete documentation to support the subrecipients' reimbursement claims continues to be an issue for the subrecipients and the department, as evidenced in Findings 2017-018 and 2017-026.

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 [the department] 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 U.S. 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

Because department management has not addressed weaknesses noted in the CACFP and SFSP programs' prior findings, management's lack of sufficient oversight continues to threaten the integrity of the programs. Without the implementation of adequate controls and oversight in the future, the department will continue to

- make improper reimbursements to subrecipients;
- provide meals to ineligible participants;
- not detect noncompliance or fraud timely; and
- 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 should pursue actions afforded to the department as the pass-through agency to ensure subrecipients, and the department, comply with the federal requirements. The Commissioner, the Director of CACFP and SFSP, and the Director of Audit Services should ensure that staff implement stronger controls addressing all deficiencies in this report and recover overpayments to subrecipients. 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 the department's 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

This finding appears to be an executive summary and historical information of the food programs findings over the past few years. While we provided our response to each finding, we are providing responses to certain items included in this finding.

Management Allowed Bad Actors to Participate in Food Programs Without Further Scrutiny

We do not concur.

The department's management is committed to addressing issues of fraud, waste, and abuse from the food programs and other programs. We take all necessary action against any entity or individual with a contractual relationship with the department found submitting fraudulent or

overstated claims. In fact, between 2014 and 2017, the department terminated 17 SFSP food program sponsoring organizations and 31 CACFP food program sponsoring organizations due to questionable practices and noncompliance with the food programs' requirements that were identified by the department's monitors.

The audit review did not fully recognize or understand the inherent challenges that are presented in the federal design of the food programs, which is outlined in 7 C.F.R. § 225 and 226. The department understands that program integrity is imperative and must be balanced within the context of the real and practical operation of the programs, along with the inherent risks. The department exceeded the minimum federal and state requirements by increasing monitoring of the sponsors and feeding sites. The results of the department's food programs monitoring reports are provided to the General Assembly and state auditors in accordance with Public Chapter 798.

Weak Detective Internal Control Processes

Weak Monitoring Review Practices and Management's Reception of Objective Feedback

We do not concur.

The state auditors did not report that the department's Audit Services management requested, and the state auditors agreed, to accompany the department's monitors during the on-site visits to sponsors and feeding sites to build trust, cooperation, and coordination between the monitors and state auditors. Also, this collaborative effort was designed to find if there are new or additional procedures that may be incorporated into the monitoring process to mitigate the inherently risky food programs. In fact, the department has maintained email communication between Audit Services management and State Audit management that demonstrate the willingness of the department to receive objective feedback from the state auditors in order to improve our monitoring procedures.

The state auditors did provide the department's Audit Services management with a hard copy of their observations; however, the hard copy did not include any recommendations on ways to improve monitoring efforts or mitigate risks under the federal guidance. In terms of analytics, the Audit Services management established a process to export claims out of TIPS and analyze the data for any sponsoring organization that claim more than the approved capacity or block claiming in an attempt to mitigate risks. The analytics results are communicated to the monitors so that they can expand their work if needed.

In addition, the department's monitors were also accompanied by the federal monitors as part of an on-site federal monitoring review who acknowledged the department's efforts in monitoring the food programs.

Weak Monitoring Follow-up on Inconsistencies and Questionable Practices

We do not concur that the department's monitors did not adequately scrutinize questionable or red flag patterns to determine possible fraud. The department takes red flags and fraud factors seriously. In fact, due to the diligent and effective monitoring work, for the period of September 2014 through February 2018, the department terminated 17 SFSP food program sponsoring

organizations and 31 CACFP food program sponsoring organizations because of these fraud indicators.

Auditor's Comment

Management has a fundamental misconception of a most basic responsibility as a federal fund recipient: to take reasonable steps to ensure that the funds it is entrusted with are properly spent.

Management's responsibility is to design adequate internal controls over programs to ensure compliance with federal requirements. Our role as auditors is to evaluate and report on the adequacy of the controls management designs. It is not our duty to design or implement the controls for management.

Federal grantors provide minimum requirements in the regulations that management should perform to check for program compliance. These minimum requirements are the lowest acceptable level of monitoring and are the starting point for creating adequate internal controls. Management uses the minimum requirements as the standard by which they gauge compliance, but achieving this minimum is not an indicator that management has fully met their obligations as a federal fund recipient. In fact, the information gathered from this minimum monitoring convincingly demonstrates the need for far more effective internal controls. In addition to performing adequate monitoring, management is obligated to design controls to detect and prevent fraud; to establish aggressive processes to follow up on identified fraud risks; and to obtain sufficient evidence to terminate subrecipients from the program when necessary.

Regarding the collaborative on-site monitoring efforts, although management helped to arrange the joint site visits, the actual visits proved to be unsuccessful. We were not able to share any of our methods with the department's monitors. In fact, our presence on-site made the monitors uncomfortable because they stated they did not understand why we were there. To get on the proper track and set the expectations for our joint monitoring visits, we met with the Audit Services Director and shared the results of our first joint visit. We attempted once more to have a successful collaboration on a site visit, but again the visit was unsuccessful because management had not arranged proper time for us to share our methods to identify and address fraud risk factors. Again, we emphasize that while we welcome any opportunity to collaborate with management on its monitoring efforts, the responsibility for monitoring rests squarely on management.

Management's comment regarding the number of sponsors terminated from these two programs may be misinterpreted. In fact, management terminated only two subrecipients due to their failure to submit a corrective action plan for the fraud indicators or to repay funds owed to the department for overpayments.

We would like to add clarity to management's comment and claim that, between 2014 and 2017, the department terminated 17 SFSP food program sponsoring organizations and 31 CACFP food program sponsoring organizations due to questionable practices and noncompliance with the food programs' requirements that were identified by the department's monitors. Other than the two noted above, the subrecipients were denied participation because of incomplete applications or the subrecipients' inability to meet eligibility requirements, not because of fraud or continuing noncompliance concerns.

Precisely because we do fully recognize and understand the inherent challenges in the federal design of the food program, we continue to report the numerous repeated findings regarding management's lack of sufficient controls to prevent and detect continuing fraud, waste, abuse, and noncompliance by repeat offenders. This is our duty under state and federal law and is required by the state's contract with the federal government for the Single Audit.

Finding Number	2017-018
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	201616IN105045, 201616IN20245, 201616N109945, 201717N109945, 201717IN20245, and 201717N105045
Federal Award Year	2016 through 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Repeat Finding	2016-021
Pass-Through Entity	N/A
Questioned Costs	

CFDA	Federal Award Identification Number	Amount
10.558	201616IN105045, 201616IN20245, and 201616N109945	\$1,643
10.558	201717IN20245, 201717N105045, and 201717N109945	\$209,634

For the third 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 \$211,277

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 the CACFP, the department is responsible for ensuring that subrecipients are eligible to participate in the program and that the subrecipients comply with federal requirements. To receive payment for the meals and supplements they provide to eligible participants, subrecipients submit meal reimbursement claims to DHS through either the Tennessee Food Program's online application or the Tennessee Information Payment System. Tennessee Food Program was used during the audit period from July 1, 2016, through September 30, 2016. DHS transitioned to the Tennessee Information Payment System on October 1, 2016. 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 Audit Services to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. Audit Services is required to provide monitoring to at least 33.3% of all

subrecipients each year. Generally, Audit Services reviews one meal reimbursement claim, representing one month of the program year, at each subrecipient. Audit Services 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 monitoring visit, Audit Services staff will increase the frequency of monitoring visits to once a year until the serious deficiency has been corrected.

As in the two prior audits, we reported that CACFP staff had not ensured subrecipients maintained accurate supporting documentation for meal reimbursement claims and paid the subrecipients based on inaccurate claims for meal reimbursement. The department's management concurred in part with the most recent prior finding. In its six-month follow-up report to the Comptroller, management stated that it continues to strengthen training and technical assistance for both staff members and program participants; however, we still noted noncompliance.

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 2017-017. Management is responsible for monitoring subrecipients; however, as noted in finding 2017-017, their monitoring process is not sufficient to identify fraud indicators. We also found other federal noncompliance as described below in this finding.

Condition

We selected 10 CACFP subrecipients from a population of 414 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2017. To test the remaining population of 404 CACFP subrecipients, we selected a nonstatistical, random sample of 50 subrecipients to test along with the 10 high-risk 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 state fiscal year 2017. When deemed necessary due to fraud risks, we expanded our testwork.

Initial Testwork

Based on testwork performed, we noted for 4 of 60 meal reimbursement claims tested (7%), the subrecipients did not always maintain documentation to support the claim. When the subrecipients maintained documentation, the documentation was not accurate to support the number of meals requested on the meal reimbursement claim. We noted for 31 of 60 meal reimbursement claims tested (52%), the subrecipient submitted a claim for reimbursement for more meals served than the subrecipient had documentation to support and for 15 of 60 meal reimbursement claims tested (25%), the subrecipients submitted a claim for reimbursement for fewer meals served than what was reported on supporting documentation. The department reimbursed subrecipients based on inaccurate meal reimbursement claims, leading to overpayments to the subrecipients totaling \$33,370 and underpayments of \$7,957. If we found noncompliance for subrecipients based on different types of testwork, we eliminated any duplication of questioned costs. (See Questioned Costs below.) Ultimately, we questioned \$24,589 in net overpayments to subrecipients not maintaining accurate supporting documentation.

High-risk Subrecipients

Based on our initial testwork results, we determined that the department still has not developed effective enhanced subrecipient monitoring activities to identify high-risk subrecipients as recommended in our prior audit finding. Based on our testwork, we noted that 3 of 60 claims tested (5%) included the following fraud indicators such as subrecipients:

- a. claiming the same number of meals each day of the claim month (block claiming);
- b. claiming perfect attendance for all participants each day of the claim month;
- c. using copied meal counts and attendance rosters;
- d. submitting meal counts that always ended in “0” or “5” for each day of the claim month (suggesting rounding rather than actual meals served); and
- e. claiming the number of meals delivered (rather than actually served) each day of the claim month.

Because management did not identify that these subrecipients may be higher risk and follow up accordingly, management continued to reimburse these subrecipients when fraud risk indicators, as described above, were present without first pursuing further review.

Expanded Testwork

Subrecipient 27

During our initial testwork, we noted Subrecipient 27 submitted a meal reimbursement claim with meal counts that always ended in “0” or “5” and numbers of meals claimed that equaled the number of meals delivered each day; therefore, we expanded our testwork and reviewed an additional meal reimbursement claim for this subrecipient. Based on our review, that claim also included the same fraud indicators.

Subrecipient 26

Due to the fraud indicators we noted on Subrecipient 26’s meal reimbursement claims, we performed 10 meal observations at 8 feeding sites to determine if the subrecipient was actually feeding the number of children indicated on the claims. We compared what we observed at the feeding sites to historical claim information we obtained from the subrecipient. Our review revealed that three feeding sites fed significantly fewer children than normally claimed. See **Table 1** for details.

Table 1
Subrecipient 26 Daily Meals Claimed vs. Meals Observed

Feeding Site	October 2016 Daily Number of Meals Claimed	February 2017 Daily Number of Meals Claimed	Meal Type	Number of Meals Auditor Observed during First Meal Observation [†]	Number of Meals Auditor Observed during Second Meal Observation [†]
Site 1	300 or 500*	300 or 500*	Snacks	125	400
			Suppers	150	291
Site 2	191-300**	300**	Snacks	66	100
			Suppers	100	144
Site 3	200	200	Snacks	83	N/A
			Suppers	72	

* Subrecipient 26 claimed either 300 or 500 meals each day of the month on its site 1 meal reimbursement claims.

**Subrecipient 26 claimed between 191 and 300 meals each day for site 2 on its October meal reimbursement claim and 300 meals each day for site 2 on its February claim.

[†] The auditor performed the first meal observations the week of September 18, 2017, and the second meal observations the week of October 2, 2017.

At feeding site 1, we discussed the meal counts with the feeding site supervisor, who admitted rounding up the meal counts to the nearest hundred each day.

During our meal observation at feeding site 3, we observed that the feeding site supervisor maintained a binder full of pre-filled meal count sheets indicating 200 snacks and 200 suppers served each day. Due to the nature of the CACFP at-risk afterschool program, it is unlikely that sites can accurately predict how many children will be in attendance in advance; thus, the use of pre-printed/prepared forms is suspect.

Due to the nature of CACFP, unless an auditor is present at every meal service, it is unlikely that an exact questioned cost amount can be determined. While we were not able to perform meal observations every day, we can conclude that the subrecipients' documentation was inadequate and unreasonable; therefore, we questioned the entire amount of the claims we reviewed totaling \$186,688.

Similar fraud indicator issues were noted in the Summer Food Service Program (SFSP). See finding 2017-027.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment. We determined that despite repeated findings related to this federal program, management did not ensure that the department's annual risk

assessment included mitigating controls, including the enhanced fraud risk monitoring controls, to ensure subrecipients maintain the documentation to reimbursement costs.

Criteria

Overclaim/Underclaim

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.

Missing Documentation

According to 2 CFR 200.403(g),

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: . . .

(g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

In addition, 7 CFR 226.15(e)(4) states,

Each institution shall establish procedures to collect and maintain all program records required under this part, as well as any records required by the State agency. Failure to maintain such records shall be grounds for the denial of reimbursement for meals served during the period covered by the records in question and for the denial of reimbursement for costs associated with such records. At a minimum, the following records shall be collected and maintained: . . .

Daily records indicating the number of participants in attendance and the daily meal counts, by type (breakfast, lunch, supper, and snacks), served to family day care home participants, or the time of service meal counts, by type (breakfast, lunch, supper, and snacks), served to center participants. State agencies may require family day care homes to record meal counts at the time of meal service only in day care homes providing care for more than 12 children in a single day, or in day care homes that have been found seriously deficient due to problems with their meal counts and claims.

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 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. The Audit Services Director stated it is difficult to respond to fraud indicators and comply with the number of required monitoring reviews with the limited audit services staff. The department did not provide any additional information to address subrecipients' inaccurate claim reporting.

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," 2 CFR 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. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

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 2017-017.

Effect

Without preventive 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, Audit Services' monitoring efforts, to promptly detect and address noncompliance.

Due to the limitations of Audit Services' review, Audit Services' 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 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(b), "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 major programs, 2 CFR 200.516(a) requires the auditors to report known and likely questioned costs greater than \$25,000 for a type of compliance requirement. 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 \$211,277. See **Table 2** for details by subrecipient.

Table 2
Summary of Questioned Costs

Subrecipient †	Meal Reimbursement Overclaim*	Overclaim With Fraud Indicators*	Total*
Subrecipient 1	\$3		\$3
Subrecipient 2	\$49		\$49
Subrecipient 3	\$12		\$12
Subrecipient 4	\$0		\$0
Subrecipient 5	\$3		\$3
Subrecipient 6	\$1		\$1
Subrecipient 7	\$896		\$896
Subrecipient 8	\$1		\$1
Subrecipient 9	\$234		\$234
Subrecipient 10	\$20		\$20
Subrecipient 11	\$22		\$22
Subrecipient 12	\$2		\$2
Subrecipient 13	\$14		\$14
Subrecipient 14	\$34		\$34
Subrecipient 15	\$66		\$66
Subrecipient 16	\$1,303		\$1,303
Subrecipient 17	\$1		\$1
Subrecipient 18	\$75		\$75
Subrecipient 19	\$175		\$175
Subrecipient 20	\$7		\$7
Subrecipient 21	\$19		\$19
Subrecipient 22	\$16,370		\$16,370
Subrecipient 23	\$0		\$0
Subrecipient 24	\$1,573		\$1,573

Subrecipient †	Meal Reimbursement Overclaim*	Overclaim With Fraud Indicators*	Total*
Subrecipient 25	\$520		\$520
Subrecipient 26 - Site 1		\$60,775	\$60,775
Subrecipient 26 - Site 2		\$43,291	\$43,291
Subrecipient 26 - Site 3		\$24,650	\$24,650
Subrecipient 27	\$2,336		\$2,336
Subrecipient 27 - Site 1		\$4,997	\$4,997
Subrecipient 27 - Site 2		\$13,218	\$13,218
Subrecipient 27 - Site 3		\$5,017	\$5,017
Subrecipient 28	\$187		\$187
Subrecipient 29	\$664		\$664
Subrecipient 30		\$34,741	\$34,741
Totals	\$24,589	\$186,688	\$211,277

*The amounts in this table are rounded to the nearest dollar. Amounts that show \$0 are for questioned costs that were less than 50 cents before rounding.

†Due to netting of overclaims and underclaims, we only questioned costs for 30 subrecipients. We did not question costs for subrecipients that had a greater amount of underclaims than overclaims.

Our testwork included a review of 60 meal reimbursement claims totaling \$1,045,477 from a population of 414 subrecipients' meal reimbursement claims, totaling \$66,349,218, during state fiscal year 2017.

Recommendation

As recommended in the prior audit, to reduce the risk of improper payments, the Commissioner should ensure the Director of CACFP and SFSP establishes a preventive control to ensure the accuracy of subrecipients' meal reimbursement claims before the department remits payments. Also, the department should increase its focus on Audit Services' 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, Audit Services' 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, Audit Services' 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 \$211,277 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.

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

Expanded Testwork

We do not concur.

The Division of Audit Services management made significant improvement in the monitoring process. Our food programs monitoring is in compliance with the federal and state regulations and exceeds the required minimum number of on-site feeding site visits. The department's monitoring procedures also include red flags and fraud factors.

For the period of September 2014 through February 2018, our diligent and effective monitoring has led the department to terminate the agreements with 17 SFSP and 31 CACFP food program sponsoring organizations.

The department's management referred two entities to the state auditors for investigation due to serious conditions identified by DHS monitors. For one of those referrals, after almost a year from the date of referral, state auditors informed us that they would not issue an investigative report and the DHS Audit Services could continue with the investigation and issue our report, which we did. The second referral was sent to State Audit on November 20, 2017, and as of February 23, 2018, the state auditors have not responded to our request to investigate.

The department does not agree with the questioning of all costs associated with the expanded reviews identified in this finding. The state auditors questioned all \$186,688 in meal costs claimed by the sponsor for the months tested based on two observations from three feeding sites and gave no credit for the meals they actually reported as served.

While this approach may be allowable for the state auditors conducting the Single Audit, it does not meet the level of sufficient appropriate evidence for the department to successfully pursue and recover all the questioned costs noted in this finding. A sponsor exercising its due process rights under 7 C.F.R. § 226 would refute these costs, and there is no evidence to support recoupment.

The state auditors acknowledged in the finding that "Due to the nature of CACFP, unless an auditor is present at every meal service, it is unlikely that an exact questioned cost amount can be determined." The Division of Audit Services staff also cannot be present at every feeding site for every meal service, and this approach is specifically not supported by FNS.

Initial Testwork

We concur.

The department agrees that CACFP subrecipients did not correctly calculate meal reimbursement claims.

CACFP sponsors and feeding sites are trained by the Department on an annual basis. The department provides additional training resources for sponsors and institutions to use as needed, including training on how to correctly calculate meal reimbursement claims and how to maintain required documentation to support the meal reimbursement claim. Additionally, topic specific trainings and technical assistance are available at sponsors' request, including support in accurately completing income eligibility forms.

It should also be noted that the same issues identified in this condition are also identified through Division of Audit Services monitoring of the sponsors. The Audit Services monitoring findings report disallowed meal costs based on differences between meals observed and claimed by the sponsor. The disallowed meal costs are resolved through the corrective action and Serious Deficiency process, which includes the sponsors' full due process rights through appeal as required by federal law.

It should be also noted that 19 of the 31 sponsors with identified questioned costs were below the Department's threshold of \$100 to recover. It is unclear why the state auditors would question actual costs to a sponsor of less than \$100 which the Department would not disallow, since USDA FNS recognizes this as administratively burdensome within the *Code of Federal Regulations*.

In addition, 15 sponsors and feeding sites were identified as underclaiming meals. This does not indicate programmatic noncompliance. An approved sponsor is under no obligation to claim all of the meals served to eligible participants. It is in the best interest of these sponsors to claim the meals, and, if discovered by the department, the sponsors and feeding sites would be given an opportunity to submit a revised claim. The sponsors would not, however, violate program regulations by underclaiming the eligible meals.

The department will work to recover any supported disallowed meal costs contingent on the receipt of necessary documentation from the state auditors in support of their conclusions.

Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance risks were assessed on a more programmatic/divisional level.

Auditor's Comment

As required by federal regulations, 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's primary control is subrecipient monitoring, which, as noted in finding 2017-017, is not sufficient to address fraud risks or to minimize waste and abuse within these programs. As we have explained to department management and as noted in the finding, 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. Because we have identified a total of \$211,277 in questioned costs related to the

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Subrecipient Monitoring compliance requirements, we are bound by the federal regulations to report these costs in our Single Audit report. We cannot disregard questioned costs as suggested by department's management.

Finding Number	2017-019
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	201717N109945, 201717IN20245, and 201717N105045
Federal Award Year	2012 through 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-023 2016-024
Pass-Through Entity	N/A
Questioned Costs	\$5,284,102

For the fourth year, the Department of Human Services had inadequate internal controls over subrecipient eligibility determinations, resulting in federal questioned costs of \$5,284,102

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, 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 its budget, to the department for approval. For federal fiscal year 2017, program staff reviewed over 300 potential subrecipients.

As noted in the prior three 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.

The finding was repeated for a third time for the year ended June 30, 2016 (Finding 2016-023), and DHS concurred in part with the finding. Management agreed that deficiencies existed with the paper-based application process; however, the department did not agree with the questioned costs noted. Management stated the following:

The Department does not concur with the questioned costs noted in the finding.

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.

In response to the prior audit finding, management stated that it would provide additional training and would provide technical assistance to the subrecipients to further mitigate the risk of error in completing the CACFP applications. However, even after program management provided in-person and online training, we continued to find issues with the subrecipient eligibility determination process. We found the following noncompliance.

Condition and Criteria

We selected a nonstatistical, random sample of 60 subrecipients from a population of 361 subrecipients and reviewed the federal fiscal year 2017 application for participation. Based on testwork performed, for 34 of 60 subrecipient applications tested (57%), we found 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: 30-Day Notification of Approval

Based on our testwork, we noted that for 13 of 60 subrecipient applications reviewed (22%), 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.

Title 7, *Code of Federal Regulations*, 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.

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

Condition B: The Department Did Not Verify Institutions' Licenses or Compliance With Health and Safety Standards

Based on our testwork, we noted that for 7 of 60 subrecipient applications tested (12%), program staff did not verify the subrecipient had all required licenses or otherwise met health and safety standards.

Concerning licenses, 7 CFR 226.7(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.

Specifically, 7 CFR 226.6(d)(i) and 7 CFR 226.6(d)(1)(v) state:

Each State agency must establish procedures to annually review information submitted by institutions to ensure that all participating child care centers, at-risk afterschool care centers, outside-school-hours care centers, and day care homes: Are licensed or approved by Federal, State, or local authorities, provided that institutions that are approved for Federal programs on the basis of State or local licensing are not eligible for the Program if their licenses lapse or are terminated.

If Federal, State or local licensing or approval is not otherwise required, at-risk afterschool care centers and outside-school-hours care centers must meet State or local health and safety standards. When State or local health and safety standards have not been established, State agencies are encouraged to work with appropriate State and local officials to create such standards. Meeting these standards will remain a precondition for any afterschool center's eligibility for CACFP nutrition benefits.

In addition, 7 CFR 226.6(e)(1) states:

Each State agency shall establish procedures to annually review information submitted by institutions to ensure that all participating adult day care centers either: Are licensed or approved by Federal, State or local authorities, provided that institutions which are approved for Federal programs on the basis of State or local licensing shall not be eligible for the Program if their licenses lapse or are terminated.

We were able to identify \$5,284,102 in questioned costs because program staff did not ensure these subrecipients had all required licenses.

Condition C: National Disqualified Listing

For the third year, we noted that CACFP staff did not document their verification that the principals [board members and key management positions] of 27 of 60 subrecipients (45%) were not on the National Disqualified Listing (NDL).

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.

For new institutions, 7 CFR 226.6(b)(1)(xii) states,

(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.

Condition D: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment. For the fourth 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 the instances of noncompliance noted above continued to occur after management's adoption of a new application approval process.

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," 2 CFR 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

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 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 \$5,284,102 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	\$137,990
Subrecipient 2	\$21,084
Subrecipient 3	\$3,271,293
Subrecipient 4	\$422,809
Subrecipient 5	\$345,865
Subrecipient 6	\$812,345
Subrecipient 7	\$272,716
Total	\$5,284,102

Our testwork included a review of 60 CACFP subrecipients that received meal reimbursement claims totaling \$13,626,409 for the period from October 1, 2016, through June 30, 2017 (from the month of approval through the state fiscal year-end), from a population of 361 subrecipients whose meal reimbursement claims totaled \$48,262,910 for the same period. For major programs, 2 CFR 200.516(a)(3) requires us to report known questioned costs greater than \$25,000 for a type of compliance requirement. 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 the Summer Food Service Program (SFSP) ensure sufficient controls are in place, and ensure corrective action is taken at all levels. The Director of CACFP and SFSP should also ensure that program staff approve subrecipient applications within the required time period, ensure that subrecipients met licensure requirements or health and safety requirements, and maintain documentation that all principals for the subrecipients were not on the National Disqualified Listing. 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 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

We do not concur.

It should be noted that in this finding the state auditors did not repeat the two major issues noted in the prior audit report for which the state auditors questioned costs. The two issues that are not repeated are the ***Board Meeting Minutes*** issue for which state auditors questioned costs, and the ***Media Releases*** issue for which the state auditors questioned costs. Upon consultation with USDA FNS, such questioned costs were not substantiated by our federal partners, and the Department has taken steps to correct these issues.

Condition A: 30-Day Notification of Approval

We do not concur.

The department disagrees with the state auditors' methodology of evaluating this criteria and their conclusion that subrecipients were not notified of approval or disapproval to operate in the program within 30 days of the department receiving a complete application.

The state auditors' methodology calculated the number of days between when the sponsor or institution submitted an application and when an approval letter was sent. This methodology did not take into account any supplemental information that was requested and/or received by the department after the application packet was submitted. Food Program management explained to the state auditors that the "Submission Date" within the Tennessee Information Payment System (TIPS) did not indicate that a **complete** application was received.

Examples were provided to the state auditors showing a complete application demonstrating that their methodology was unsound. We also made the state auditors aware that the United States Department of Agriculture (USDA) accepted the same methodology to close a similar finding from the 2016 Management Evaluation (ME) Review.

Since any food program Single Audit findings final determinations are made by the USDA, it is unclear as to why the state auditors refused to reconsider the methodology given by the regulating federal agency.

Condition B: The Department Did Not Verify Institutions' Licenses or Compliance With Health and Safety Standards

We do not concur.

One of the seven (7) subrecipients (sponsors) noted in this finding exclusively sponsors an At-Risk Afterschool Care Center. *Licensure Rules for Child Care Centers*, Chapter 1240-04-03 notes that child care licensing is not required or available for centers that care for children less than 3 hours a day, which includes afterschool programs. We do not concur with the questioning of costs for the lack of licensure documentation within TIPS on a sponsor for which it was not required.

We communicated this information to state auditors during their fieldwork.

In FFY 2016-2017, there were approximately 3,400 feeding sites and providers participated in the CACFP. Based on communication with the state auditors, they found that there was only one (1) feeding site that the health and safety documentation was not available for their review.

State auditors indicated that subrecipient applications were tested. The majority of sponsors participated in the prior year and submitted applications prior to the start of the federal program year. The application is approved based on a complete application and any feeding sites submitted for approval at that time. Feeding sites can be submitted for approval subsequent to the initial determination for subrecipient eligibility.

For one (1) of the sponsors noted in this finding, licensure documentation was not included in the initial application for 10 of its 132 sponsored centers. The 10 centers were submitted by the sponsor subsequent to approval of the initial application. The licensure information was reviewed prior to approving the site changes for the sponsor. We do not concur with the questioning of costs for the lack of licensure documentation within TIPS for centers that were not part of the initial application.

We communicated this information to state auditors during their fieldwork.

For four (4) of the sponsors noted in this finding, licensure documentation was not included in the application for alternatively approved homes. Unlicensed daycare homes are allowed to participate in the CACFP under a sponsor utilizing the alternative approval process.

According to *Standards for Family Child Care Homes*, Chapter 1240-04-04 Tennessee daycare homes with 4 or less unrelated children are not required to be licensed. We do not concur with the questioning of costs for the lack of licensure documentation within TIPS on a sponsor for which it was not required.

We communicated this information to state auditors during their fieldwork.

Condition C: National Disqualified Listing

We do not concur.

During the period of the fiscal year 2016 Single Audit, the USDA changed its guidance for the department regarding the requirements for checking the National Disqualified List (NDL) prior to CACFP application approval.

USDA's most recent guidance provided to the department indicated that all board members must be checked for presence on the NDL; however, this guidance was not provided until well after the CACFP fiscal year 2017 applications were approved. Subsequent to this new guidance, the department verified that no board members were on the NDL.

Currently, the Department checks the NDL for all responsible parties and individuals, including board members, prior to the application's approval.

Condition D: Risk Assessment

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). For the department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A: 30-Day Notification of Approval

Management did not provide sufficient evidence during our audit fieldwork to resolve our audit conclusions. If the department does not consider an application complete until it receives all supplemental information, the department should not mark the application "approved" until it receives and reviews all supplemental information. The department did not provide clear examples of when an application is complete. In addition, the department did not provide the methodology FNS approved.

Condition B: The Department Did Not Verify Institutions' Licenses or Compliance With Health and Safety Standards

The department should maintain current licenses or other health and safety information for all feeding sites, regardless of the time they entered the program under sponsorship, to meet eligibility determination requirements. Management did not provide documentation of the current licenses or health and safety compliance.

Condition C: National Disqualified Listing

The requirement to check the NDL for the board of directors did not change; however, the department did not seek clarification on the original requirement until February 2017. The

department did not provide us with documentation that they checked the NDL for the board of directors.

Finding Number	2017-020
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 Identification Number	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 2016IN105045, 2016IN20245, 2016IN109945, 2017IN20245, 2017IN105045, and 2017IN109945
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility Subrecipient Monitoring
Repeat Finding	2016-025
Pass-Through Entity	N/A
Questioned Costs	\$8,771

For the fifth 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 \$8,771 in federal questioned costs

Background

The Child and Adult Care Food Program (CACFP), a year-round program, is federally funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services. As a pass-through entity for CACFP, the department 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 Audit Services section to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. To ensure subrecipients' compliance, Audit Services 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 participants' eligibility applications when required and properly determined participants' eligibility.

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

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

As noted in the prior four 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 prior finding (Finding 2016-025 in the 2016 Single Audit Report). They stated:

The Department concurs that issues noted in conditions A-G resulted in non-compliance by the subrecipients . . . 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.

The department's 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.

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 2017-017. Management is responsible for monitoring subrecipients; however, as noted in finding 2017-017, their monitoring process is not sufficient to identify fraud indicators. We also found other federal noncompliance as described below in this finding.

Condition and Criteria

From a population of 414 CACFP subrecipients, we selected 11 subrecipients based upon high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2017. Of the 11 high-risk subrecipients, 6 were required to maintain eligibility documentation. To test the remaining population of 403 CACFP subrecipients, we selected a nonstatistical, random sample of 72 subrecipients, 66 of which were required to maintain eligibility applications or application addendums. We reviewed a total sample of 73 subrecipient claims for the 72 subrecipients tested. To select these claims, we haphazardly selected a month during fiscal year 2017. For each meal reimbursement claim in our sample, we haphazardly selected 10 participants for which the subrecipient claimed meals served on the selected test claim, or if the subrecipient's claim was for less than 10 participants, we tested all the related eligibility documentation for the participants, for a total of 741 participants tested. 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. We noted the following problems:

Condition A: Participants Were Not Documented as Eligible for Services

We identified that 68 of the 72 subrecipients we selected for testwork were required to maintain eligibility applications. Based on our testwork, we noted that 20 of 68 subrecipients (29%) did not document that their participants met the age requirement for eligible participants. The subrecipients claimed the participants were children; however, the eligibility applications were missing the participants' birth date and/or age. We could not determine if the participants met 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; [emphasis in original]
- (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.

Condition B: Subrecipients Did Not Maintain Eligibility Applications or Did Not Maintain Complete Applications

We identified that 68 of the 72 subrecipients we selected for testwork were required to maintain eligibility applications. Based on our testwork, we noted that 10 of 68 (15%) subrecipients did not maintain eligibility applications for 27 of 685 participants selected for testwork (4%). Of the applications that were maintained, 36 of 68 subrecipients tested (53%) did not maintain complete applications for 69 of the remaining 658 participants selected for testwork (10%). Either the applications were not updated annually or they were missing one or more of the following required components:

- all household members;
- income information;
- whether the participant received Supplemental Nutrition Assistance Program or Families First assistance;
- the last four digits of the participant's social security number;
- the signature of the participant's guardian; or
- the subrecipient's signature and date.

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,

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.

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.)

Since the subrecipients did not maintain applications that supported free and reduced-price meal reimbursement, we reclassified the participants' eligibility category as "paid" and questioned the difference in the reimbursement rates. See **Table 1** for a summary of questioned costs.

We also noted that 19 of 68 subrecipients tested (28%) did not indicate the basis for determining participants' status as free, reduced, or paid for 55 of 658 participants (8%) selected for testwork, making the application incomplete. In addition, we noted that 45 of 68 subrecipients tested (66%) did not indicate their basis for determining a participant categorically or income eligible for 296 of 658 participants (45%).

The eligibility application for participation states,

To identify the eligibility classification of the enrolled children identified above, please circle: Free, Reduced-Price or Paid.

We did not question costs for these errors noted because the errors did not negate the participants' eligibility for the program.

Condition C: Subrecipients Did Not Maintain Enrollment Addendums

We identified that 66 of the 72 subrecipients we selected for testwork were required to maintain enrollment addendums. Based on our testwork, we found that for 50 of 66 subrecipients tested (76%) the subrecipients did not always maintain enrollment addendums, and for addendums maintained the subrecipients did not fully complete and/or update the addendums annually. The subrecipients did not maintain enrollment addendums for 32 of 671 participants selected for testwork (5%) and did not fully complete and/or update the addendums annually for 113 of the 638 remaining participants selected for testwork (18%).

As stated above in 7 CFR 226.15(e)(2), eligibility documentation should be maintained and updated annually. 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 Claimed the Wrong Category of Meal Status for Their Participants

Based on our testwork, we noted that 23 of 72 subrecipients (32%) incorrectly determined the eligibility meal status (free, reduced-price, and paid) for 31 participants selected for testwork.

7 CFR 226.23(e)(4) states,

The institution shall take the income information provided by the household on the application and calculate the household's total current income. When a completed application furnished by a family indicates that the family meets the eligibility criteria for free or reduced-price meals, the participants from that family shall be determined eligible for free or reduced-price meals. . . . When the information furnished by the family is not complete or does not meet the eligibility criteria for free or reduced-price meals, institution officials must consider the participants from that family as not eligible for free or reduced-price meals, and must consider the participants as eligible for "paid" meals.

See **Table 1** for a summary of questioned costs by subrecipient.

Condition E: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment. Despite repeat findings related to this federal program and specifically for these conditions, 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

During our discussions with them, department management did not provide a cause for the issues. Based on the number and type of errors found in our testwork, as well as management's partial concurrence with the prior-year findings, the department's training on properly completing and maintaining individual eligibility documentation is either ineffective or the subrecipients are unwilling to comply with program regulations.

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. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Effect

Because the Director of CACFP and the Summer Food Service Program (SFSP) 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 implements sufficient controls, and ensures corrective action at all levels, the department will continue to have an 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 \$8,771 for the conditions noted above. Meal reimbursement claims are calculated using a combination of reimbursement rates established by the USDA and a percentage of participants classified in the free, reduced-priced, or paid category. Because the errors noted above required us to reclassify participants into the paid category, we determined the questioned costs for each subrecipient after considering all errors we noted. See a summary of the known questioned costs in Table 1.

Table 1
Summary of Questioned Costs

Subrecipient	Questioned Costs
Subrecipient 1	\$460
Subrecipient 2	\$14
Subrecipient 3	\$81
Subrecipient 4	\$924
Subrecipient 5	\$186
Subrecipient 6	\$104
Subrecipient 7	\$39
Subrecipient 8	\$142
Subrecipient 9	\$131
Subrecipient 10	\$54
Subrecipient 11	\$129
Subrecipient 12	\$172
Subrecipient 13	\$41
Subrecipient 14	\$62
Subrecipient 15	\$232
Subrecipient 16	\$179
Subrecipient 17	\$28
Subrecipient 18	\$99
Subrecipient 19	\$35
Subrecipient 20	\$256
Subrecipient 21	\$115
Subrecipient 22	\$103
Subrecipient 23	\$203
Subrecipient 24	\$90
Subrecipient 25	\$77
Subrecipient 26	\$109
Subrecipient 27	\$124
Subrecipient 28	\$49
Subrecipient 29	\$98
Subrecipient 30	\$143
Subrecipient 31	\$101
Subrecipient 32	\$967
Subrecipient 33	\$103
Subrecipient 34	\$57
Subrecipient 35	\$22
Subrecipient 36	\$56
Subrecipient 37	\$96
Subrecipient 38	\$686
Subrecipient 39	\$299
Subrecipient 40	\$162
Subrecipient 41	\$37

Subrecipient	Questioned Costs
Subrecipient 42	\$64
Subrecipient 43	\$62
Subrecipient 44	\$313
Subrecipient 45	\$90
Subrecipient 46	\$87
Subrecipient 47	\$155
Subrecipient 48	\$49
Subrecipient 49	\$76
Subrecipient 50	\$258
Subrecipient 51	\$128
Subrecipient 52	\$252
Subrecipient 53	\$91
Subrecipient 54	\$81
Total	\$8,771

Our testwork included a review of 73 subrecipient meal reimbursement claims totaling \$1,133,492, from a population of 8,205 claims and adjustments, totaling \$66,349,218, for the period July 1, 2016, through June 30, 2017 (the state's fiscal year). 2 CFR 200.516(a)(3) requires us to report known and likely 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 SFSP should ensure all subrecipients are properly trained, perform required eligibility determinations, and maintain proper documentation to support eligibility determinations. In addition, management should 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.

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

Condition A: *Participants Were Not Documented as Eligible for Services*

We do not concur.

The state auditors indicated they could not determine the participants' birth date and/or age and that they could not determine if the participant met the program's definition of a child. This is either a duplication of Condition B, that the eligibility applications were incomplete, or an indication that the state auditors did not obtain sufficient appropriate evidence to determine the participants' birth date and/or age.

The ages and birth dates of individuals attending childcare are maintained in multiple locations, including, but not limited to, the classroom rosters which are separated by age group; the meal counts, which are separated by age group; headstart enrollment information; and the individual information maintained on each child by the child care institution.

Condition B: *Subrecipients Did Not Maintain Eligibility Applications or Did Not Maintain Complete Applications*

We concur.

CACFP sponsors and feeding sites are trained by the department personnel on an annual basis. The department provides additional training resources for sponsors' and institutions' staff to use as needed, including an online training on how to complete income eligibility applications.

The department offered two supplemental trainings on income eligibility application on July 14, 2017, and July 19, 2017. USDA FNS recognized the difficulty surrounding income eligibility applications and issued a "Prototype CACFP Meal Benefit Income Eligibility (Child Care) Form".

The department is currently adopting this form to use in Tennessee and will be distributing it and training sponsors and feeding sites on its proper use. Additionally, topic-specific trainings and technical assistance are available at the sponsors' request, including support in accurately completing income eligibility forms.

The Division of Audit Services monitors and, at the completion of the sponsors' and feeding sites' monitoring visits, inquires of feeding sites and sponsor staff if they need technical assistance. Regulatory information and other reference materials can be provided by the Audit Services monitors; all other more complex and extensive training requests are referred to Food Program management.

The department continues to evaluate findings identified in this report and in our own internal monitoring and intends to create training sessions to mitigate programmatic weaknesses. All

CACFP trainings are developed and conducted in conjunction with USDA FNS. Additionally, the department has added four (4) new program specialists to help address training needs and increase the presence of the department through on-site training and technical assistance.

It should also be noted that the same issues identified in this condition are also identified through Audit Services' monitoring of the sponsors. The Audit Services monitoring findings recalculate and report the disallowed meal costs by reclassifying the individuals to free, reduced-price, or paid as necessary. The errors and disallowed meal costs are resolved through the corrective action and Serious Deficiency process, which includes the sponsors' full due process rights through appeal as required by federal law.

The department will work to recover any supported disallowed meal costs contingent on the receipt of necessary documentation from the state auditors in support of their conclusions.

Condition C: *Subrecipients Did Not Maintain Enrollment Addendums*

We do not concur.

As indicated in USDA Memo CACFP 15-2013, "there is no Federal requirement that a center or day care home must use a specific CACFP enrollment form."

Additionally, there is no additional state agency requirement regarding the use of enrollment addendums; therefore, there is no federal non-compliance.

We communicated this information to state auditors during their fieldwork.

Condition D: *Subrecipients Claimed the Wrong Category of Meal Status for Their Participants*

We concur.

CACFP sponsors and feeding sites are trained by the department on an annual basis. The department provides additional training resources for sponsors and feeding sites to use as needed, including an online training on how to complete income eligibility applications.

The department offered two supplemental trainings on income eligibility application on July 14, 2017, and July 19, 2017. USDA FNS recognized the difficulty surrounding income eligibility applications and issued a "Prototype CACFP Meal Benefit Income Eligibility (Child Care) Form".

The department is currently adapting this form to use in Tennessee and will be distributing it and training sponsors and feeding sites on its proper use. Additionally, topic-specific trainings and technical assistance are available at the sponsors' request, including support in accurately completing income eligibility forms.

The department continues to evaluate findings identified in this report and in our own internal monitoring and intends to create training sessions to mitigate programmatic weaknesses. All CACFP trainings are developed and conducted in conjunction with USDA FNS. Additionally, the department has added four (4) new program specialists to help address training needs and increase the presence of the department through on-site training and technical assistance.

It should also be noted that the same issues identified in this condition are also identified through Division of Audit Services' monitoring of the sponsors. The Audit Services monitoring findings recalculate and report the disallowed meal costs by reclassifying the individuals to free, reduced-price, or paid as necessary. The errors and disallowed meal costs are resolved through the corrective action and Serious Deficiency process, which includes the sponsors' full due process rights through appeal as required by federal law.

The department will work to recover any supported disallowed meal costs contingent on the receipt of necessary documentation from the state auditors in support of their conclusions.

It should also be noted that 24 of the 52 sponsors with identified questioned costs were below the department's threshold of \$100 to recover. It is unclear why the state auditors would question actual costs to a sponsor of less than \$100, which the department's own monitoring would not disallow because USDA FNS recognizes this as administratively burdensome within Title 7 of *Code of Federal Regulations*.

The department will work to recover any supported disallowed meal costs contingent on the receipt of necessary documentation from the state auditors in support of their conclusions.

Condition E: Risk Assessment

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition A: Participants Were Not Documented as Eligible for Services

This condition is not a duplication of Condition B. Our evidence was the enrollment application, which did not include the birth date or age of the child. We allowed the department the time and opportunity to provide us with any documentation to resolve this condition; however, they did not provide such documentation.

Condition C: Subrecipients Did Not Maintain Enrollment Addendums

The department did not ensure that institutions participating in the program maintained the annually updated documentation of a participant's enrollment, including information on each child's normal days, hours of care, meals received, and a parent or legal guardian signature. The issue of the finding is that neither the department nor its subrecipients could provide us the required documentation regardless of the "form" of documentation.

In addition, the department's Audit Services unit often include findings in their audit reports when the subrecipient does not have a complete "enrollment addendum" form.

Finding Number	2017-021
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 Identification Number	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717IN20245, 201717N105045, and 201717N109945
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-023
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services did not ensure that subrecipients were properly reimbursed for commodities

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 (the department). As a pass-through entity for CACFP, the department 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.

The department 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 2017, program staff reviewed over 300 potential subrecipients.

For all subrecipients, the department is required to offer food commodities or cash in lieu of those food commodities, unless approved for cash in lieu of commodities for all institutions by USDA's Food and Nutrition Services (FNS). The amount of commodities or cash in lieu of commodities a subrecipient receives is based on the number of lunches and/or suppers it serves each month. For our audit period, the cash in lieu of commodities rate was \$0.23 per lunch and supper. Subrecipients who opt to receive food commodities must be reported to the Tennessee Department of Agriculture, the state's commodity distribution agency, by June 1 each year, preceding the beginning of the federal fiscal year in which the commodities will be claimed.

We noted in the prior audit finding that the department did not offer all subrecipients the option of receiving commodities, and the department had not obtained approval from FNS to only offer cash

in lieu of commodities for all institutions. Department management concurred in part with the prior audit finding and stated,

The Department has begun with the corrective action for this issue by utilizing TIPS [Tennessee Information Payment System] 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.

As stated in management's comment to the prior audit finding and again in the department's six-month follow-up report to the Comptroller, the department began using TIPS to process and approve federal fiscal year 2017 CACFP subrecipient eligibility applications. During federal fiscal year 2017, the department created two distinct applications for CACFP subrecipients—an application for child care centers and an application for day care homes. However, even after the department established a process within TIPS to offer commodities, we continued to find issues. We found the following issues of noncompliance.

Condition and Cause

During our audit of the CACFP program, we performed testwork to determine whether the department complied with the commodities requirements. Specifically, we noted that the department did not

- ensure it offered commodities to all subrecipients;
- have an internal process to track subrecipients who requested commodities in order to report those requests to the Tennessee Department of Agriculture; or
- ensure subrecipients received either commodities or cash in lieu of commodities.

Without an approved exception from FNS to allow the state to only offer cash in lieu of commodities, the department is required to offer commodities to all subrecipients. Based on discussion with the Director of CACFP and Summer Food Service Program (SFSP), the department was unaware subrecipients had requested commodities on their applications and therefore did not report any subrecipients who opted for commodities to the Tennessee Department of Agriculture. Because department staff did not report the commodities requests, the subrecipients did not receive commodities. Furthermore, because the department was not authorized by FNS, it could not provide cash in lieu of commodities as permitted in FNS regulations.

Condition A: Commodities Not Offered to All Subrecipients

In the federal fiscal year 2017 application cycle, 361 participants applied and were accepted to participate in the CACFP program. From the population of 361 subrecipients, we selected a nonstatistical, random sample of 60 subrecipient applications for participation and reviewed the

applications to ensure that the department offered the subrecipients the option to request commodities. As noted in the background above, the department was not authorized to offer cash in lieu of commodities.

Based on our testwork, we noted that for 4 of 60 subrecipients tested (7%), the department did not offer the subrecipients the option to receive commodities on the application. We noted that the 4 subrecipients were day care homes. Based upon further research and discussion with the Director of CACFP and SFSP, we determined that the department did not offer the option to request commodities to the 18 day care home subrecipients (including the 4 in our testwork) participating in the program for federal fiscal year 2017 because the department's day care home application did not include the commodities option.

This condition involving the department's noncompliance did not result in questioned costs because these day care homes were still eligible to participate in the program and costs paid to them would have been allowable.

Condition B: No Internal Tracking Process

In response to the prior audit finding, the department redesigned the CACFP subrecipient applications. The redesigned child care center application allowed subrecipients to opt to receive commodities; however, the department staff did not develop an internal process to track those subrecipients who selected this option. Based on discussion with CACFP program staff, they were unaware that subrecipients had requested commodities on their applications, and, as a result, the department did not report those subrecipients to the Tennessee Department of Agriculture, which has the responsibility to provide the commodities.

Condition C: Inability to Offer Commodities or Cash in Lieu of Commodities to Subrecipients

Based on our CACFP claims review testwork (see Finding 2017-018 for sample methodology), we tested a sample of 60 meal reimbursement claims. We noted that for 1 of 60 claims tested (2%), the subrecipient had requested commodities on its application but had not been provided any benefit. Further research revealed that because the department did not provide commodities, or any other benefit such as cash in lieu of commodities, this subrecipient was underpaid \$1,233 for the period October 1, 2016, through June 30, 2017.

During our research on this subrecipient, we also noted that three other subrecipients had stated their preference to receive commodities instead of cash in lieu of commodities on their applications but did not receive either. We determined that the department underpaid these subrecipients a total of \$8,580 for the period October 1, 2016, through June 30, 2017. See **Table 1** for details of the underpayments.

Table 1
Underpayments to Subrecipients
For the Period October 1, 2016, Through June 30, 2017

Subrecipient	Underpayment Amount
Subrecipient 1	\$1,233

Subrecipient 2	\$5,486
Subrecipient 3	\$1,324
Subrecipient 4	\$1,770
Total	\$9,813

Condition D: Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 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 the department tracked, reported, and paid all subrecipients who requested commodities.

Criteria

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. State agencies must annually provide institutions with information on foods available in plentiful supply, based on information provided by the Department. Each institution electing cash-in-lieu of commodities shall receive such payments. 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. The State agency shall, 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. The list shall be accompanied by information on the average daily number of lunches and suppers to be served to participants by each such institution.

According to 7 CFR 226.5(b),

The value of such commodities donated to each State for each school year shall be, at a minimum, the amount obtained by multiplying the number of reimbursable lunches and suppers served in participating institutions in that State during the preceding school year by the rate for commodities established under section 6(e) of the Act for the current school year. Adjustments shall be made at the end of each school year to reflect the difference between the number of reimbursable lunches and suppers served during the preceding year and the number served during the current year, and subsequent commodity entitlement shall be based on the adjusted

meal counts. At the discretion of FNS, current-year adjustments may be made for significant variations in the number of reimbursable meals served. Such current-year adjustments will not be routine and will only be made for unusual problems encountered in a State, such as a disaster that necessitates institutional closures for a prolonged period of time. CACFP State agencies electing to receive cash-in-lieu of commodities will receive payments based on the number of reimbursable meals actually served during the current school year.

Effect

Because the department lacks a proper way to track subrecipients that request commodities, the Director of CACFP and SFSP and program staff were unaware that subrecipients had requested commodities. While it is the responsibility of the Tennessee Department of Agriculture to deliver commodities, the department is ultimately responsible for reporting subrecipients that opt to receive commodities to the Tennessee Department of Agriculture. Without obtaining approval from FNS to offer cash in lieu of commodities to subrecipients, the department has underpaid subrecipients in the program. Failure to establish and maintain effective internal controls increases the risk that the department will not timely prevent or detect noncompliance. 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

Because the federal grantor requires the department to offer commodities or cash in lieu of commodities to the subrecipients, the Commissioner and the Director of CACFP and SFSP should establish the means to collect and report those subrecipients requesting commodities. The Commissioner and the Director of CACFP and SFSP may also submit a request for an exemption from the federal grantor to forgo the commodities requirement due to the impracticality of providing them. If FNS approves this request, the department should then remove the option for subrecipients to select commodities from the sponsor application and instead process the cash-in-lieu payments as requested.

In addition, management should reassess its risk assessment to ensure controls are properly designed to mitigate all risks related to the issues noted and should document the mitigating controls in management's risk assessment.

Management's Comment

We concur.

The department has taken steps to correct this condition. The department communicated via email to all sponsors of day care homes asking if they would prefer to receive commodities or cash in lieu (CIL).

During the development of the TIPS sponsor application for day care homes, the question regarding if the sponsor would prefer to receive commodities or CIL of commodities was inadvertently omitted. A program change request is in development with the vendor and will be added to the CACFP federal fiscal year 2019 application for sponsors of day care homes.

Condition B: No Internal Tracking Process

We concur.

The department has taken steps to correct this condition.

The department worked in conjunction with our Information Technology staff and the TIPS vendor to develop a reporting process that allows the Department to track those subrecipients who select to receive commodities instead of CIL.

Condition C: *Inability to Offer Commodities or Cash in Lieu of Commodities to Subrecipients*

We concur.

The department has taken steps to correct this condition. The underpayments to the four (4) subrecipients identified in Table 1 have been disbursed.

As noted in the management's comment to Condition B above, we have developed a report to identify subrecipients who select commodities instead of CIL to take corrective action to address any potential underpayments.

Condition D: *Risk Assessment*

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Finding Number	2017-022
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 Identification Number	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717N109945, 201717IN20245, and 201717N105045
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	2016-026
Pass-Through Entity	N/A
Questioned Costs	N/A

For the fourth 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, the department 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). Center types include child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers, and adult day care centers. 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.

The department did not concur with this finding in the audit for the year ended June 30, 2016 (Finding 2016-026). The department stated,

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 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.

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 2017-017. Management is responsible for monitoring subrecipients; however, as noted in finding 2017-017, their monitoring process is not sufficient to identify fraud indicators. We also found other federal noncompliance as described below in this finding.

Condition

From a population of 128 CACFP sponsoring organizations that operate more than one feeding site, we selected a nonstatistical, random sample of 60. For each sponsoring organization, we haphazardly selected 1 feeding site and reviewed the sponsoring organization's monitoring documentation for that site. Based on our testwork, we noted that 13 of 60 sponsoring organizations (22%) did not document 1 or more self-monitoring items as required by federal guidance. Specifically:

- 4 of 60 sponsoring organizations (7%) did not reconcile the facilities' meal counts with enrollment and attendance records for a 5-day period;
- 9 of 60 sponsoring organizations (15%) did not review the facilities' enrollment forms;
- 5 of 60 sponsoring organizations (8%) did not review each facility 3 times each year, and/or performed less than 2 unannounced reviews; and
- 3 of 60 sponsoring organizations (5%) did not document their reviews of the sites.

We noted that DHS monitors had also identified similar noncompliance for 6 of the sponsoring organizations that were included in our testwork. The department also required the sponsoring organizations to submit corrective action plans in accordance with the department's policy. Because our testwork was for the same period that the department monitored, we will evaluate the corrective action taken by the sponsoring organizations noted in our finding when we perform the next audit.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 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, except as described in paragraph (d)(4)(iv) of this section. In addition:

- (A) At least two of the three reviews must be unannounced;
- (B) At least one unannounced review must include observation of a meal service;
- (C) At least one review must be made during each new facility's first four weeks of Program operations; and
- (D) Not more than six months may elapse between reviews.

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

The department did not always ensure sponsoring organizations fully understood monitoring requirements as set forth in federal guidance. 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 an issue for the subrecipient.

Effect

When the Director of CACFP and the Summer Food Service Program (SFSP) does not ensure sponsoring organizations comply with federal requirements and program guidelines to fulfill responsibilities for monitoring the feeding sites, all parties (the department, the sponsoring organization, and the feeding sites) will not meet federal requirements. 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.

Recommendation

The Director of CACFP and SFSP should continue to provide additional 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 be made aware that they must document the monitoring. If the department continues to identify sponsors who do not comply with monitoring requirements for their own feeding sites, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

Risk Assessment

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

We concur in part.

The Department does not concur that review of enrollment forms is an issue of federal noncompliance. USDA Memo CACFP 15-2013 states, “there is **no Federal requirement** that a center or day care home must use a specific CACFP enrollment form.” The department has no additional state agency requirement for the use of enrollment addendums; therefore, it is unclear how these items resulted in noncompliance. We communicated this information to state auditors during their fieldwork.

The Department agrees that state auditors identified the following conditions:

- four (4) sponsors did not reconcile the feeding sites’ meal counts with enrollment and attendance records for a 5-day period;
- five (5) sponsors did not review each feeding site 3 times each year and/or performed less than 2 unannounced reviews; and
- three (3) sponsors did not document their reviews of the feeding sites.

CACFP sponsors’ and feeding sites’ staff are trained by the department on an annual basis. The department provides additional training resources for sponsors and feeding staff to use as needed. In addition, two supplemental trainings are being offered on subrecipient monitoring. Additionally, topic-specific trainings and technical assistance are available upon sponsors’ request, including support in accurately completing feeding sites and sponsors level monitoring and appropriately documenting the results of their monitoring visits.

Training is not a preventive control but, rather, a mitigating control designed to reduce the risk for noncompliance. All CACFP trainings are developed and conducted in conjunction with USDA FNS. Additionally, the department has added four (4) new program specialists to help address training needs and increase the presence of the department through on-site training and technical assistance.

Auditor’s Comment

Federal regulations require sponsoring organizations to assess whether their feeding sites annually update the content of enrollment forms. This assessment is performed when the sponsoring organization monitors and documents their feeding site review. The department should ensure the sponsoring organizations properly assess that their feeding sites are meeting federal regulations. Management’s comment does not address the finding condition regarding the fact that the department did not ensure sponsoring organizations reviewed the annual updating of enrollment information.

Finding Number	2017-023
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	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717IN20245, 201717N105045, and 201717N109945
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	2016-028
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, 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 generated through the Tennessee Payment Information System 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.

As reported in the prior audit, DHS program staff did not always communicate all subaward information to subrecipients. Management concurred with the prior audit finding and stated that staff would communicate subaward information to subrecipients during training and via the provider agreements.

Condition

We selected a nonstatistical, random sample of 60 subrecipients (55 CACFP and 5 SFSP) from a total population of 400 subrecipients that DHS program staff approved to participate in CACFP and SFSP during our audit scope of July 1, 2016, through June 30, 2017. Based on our testwork, we noted that for the sample of 60 subrecipients tested (100%), program staff could not provide any documentation that they communicated the Federal Award Identification Number (FAIN) to

the 60 subrecipients. In addition, program staff and could not provide any documentation that they communicated the Code of Federal Domestic Award (CFDA) number to 52 subrecipients.

We reviewed DHS's November 2016 Financial Integrity Act Risk Assessment and noted that management had not identified the risk of not communicating subaward information to the subrecipients and the mitigating controls.

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 program staff began archiving the TIPS-generated approval letters, which documented the department's communication of some of the required federal subaward information in response to the prior audit finding. The Director also stated, however, that the department sent some CACFP subrecipients approval letters early in the application process and then inadvertently overwrote them when saving approval letters for subrecipients approved later in the process. In addition, the Director stated that some of the approval letters did not contain the CFDA number, which the department corrected once the problem was identified.

Effect

When department staff does not retain documentation of their required communication of subaward information, they cannot provide evidence of program compliance that all subrecipients were made aware of critical program award information. If department staff does not communicate subaward information, there is an increased risk that subrecipients will not properly account for federal funds and properly report federal funds in their financial statements.

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

We recommend that DHS management ensure that program staff properly communicate all required subaward information to subrecipients and properly maintain the evidence of the communication to satisfy the department's compliance requirement. Management should also include in its annual risk assessment the risk and mitigating controls associated with not communicating subaward information to subrecipients.

Management's Comment

We concur.

The department has taken steps to correct this condition. As noted in the finding, the department could not provide copies of each auto-generated email sent to sponsors. The Department created templates to demonstrate that subaward information is now included and is communicated to the sponsors via the TIPS portal.

Additionally, the Department added the Federal Award Identification Number (FAIN) and Code of Federal Domestic Award (CFDA) Number to the TIPS homepage, ensuring that every subrecipient who logs into TIPS will see the subaward information.

Finding Number	2017-024
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	2012IN109945, 2012IN20245, 2013IN109945, 2013IN20245, 2014IN109945, 2014IN20245, 2015IN105045, 2015IN109945, 2015IN20245, 201616IN105045, 201616IN20245, 201616N109945, 201717IN20245, 201717N105045, and 201717N109945
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2016-035
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services did not comply with federal billing requirements to recoup disallowed costs

Background

The Child and Adult Care Food Program (CACFP) and the Summer Food Service Program for Children (SFSP) are funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (the department). As a pass-through entity for CACFP and SFSP, the department is responsible for monitoring subrecipients in order to provide reasonable assurance that these subrecipients comply with federal and state requirements. The department provides subrecipients with federal reimbursement for eligible meals served to individuals who meet age and income requirements.

If, during the course of a monitoring review, Audit Services unit monitors note a subrecipient's noncompliance with program regulations, monitors disallow costs for meals that did not comply with program requirements. The department then requests the subrecipient to repay the disallowed costs back to the department.

Federal regulations for both CACFP and SFSP specify the minimum efforts states must perform to collect funds from subrecipients. These regulations include sending subrecipients billing notices demanding repayment of the disallowed costs and pursuing legal remedies for subrecipients who fail to repay the funds or agree to provide a satisfactory repayment schedule. We performed procedures to determine if the department recovered the disallowed costs from these subrecipients, and, if not, we performed procedures to determine if staff sent out billing notices to subrecipients in compliance with federal regulations.

We noted in the prior audit finding that the department did not comply with federal billing requirements related to excess funds. Department management concurred in part with the finding and stated,

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.

Management stated in its six-month follow-up report that the department developed the billing tracking mechanism in February 2017. Despite the management's implementation of the tracking mechanism, we found continued noncompliance with federal billing requirements.

Condition and Criteria

Child and Adult Care Food Program

We selected 10 monitoring reports for high-risk subrecipients from a population of 219 of Audit Services' monitoring reports issued during state fiscal year 2017. From the remaining population of 209 subrecipient monitoring reports, we selected a nonstatistical, random sample of 50 reports that included disallowed costs for testwork. Based on our testwork, we noted that for 5 of 60 monitoring reports reviewed (8%), the department did not perform proper procedures to recoup disallowed costs of \$34,239. For CACFP Subrecipient 1, the department issued the second notice 28 days late. For Subrecipients 2, 3, 4, and 5, as of the end of fieldwork, the department had not issued a second billing notice, and the number of days late ranged from 201 to 538 days. The department's late issuance of the second billing notice also caused staff to not comply with the billing timeline requirement to refer the sponsor for legal action after 60 days. Three of the 5 errors noted occurred in or after February 2017, when the department stated it had implemented the tracking mechanism mentioned in the prior audit management's comment.

According to Title 7, *Code of Federal Regulation*, Section 226, Part 14(a),

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.

Summer Food Service Program

We reviewed all 45 subrecipient monitoring reports that the department issued based on monitoring activities during the 2016 SFSP. Of the 45 monitoring reports reviewed, 28 reports (62%) included findings where the monitors disallowed costs. Based on our testwork, we

determined that program staff did not recover disallowed costs of \$156,732 and did not perform proper procedures to recover overpayments for 4 of 28 subrecipients (14%) whose monitoring reports included disallowed costs. We also noted that the department issued the second billing notices for the subrecipients between 93 and 270 days late. Program staff did not send the second billing notice until after we inquired about the status of the recovery efforts for 3 of 4 SFSP subrecipients noted in this finding. The department's late issuance of the second billing 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. All the errors we noted occurred after February 2017, when the department stated it implemented the tracking mechanism mentioned in the prior audit management's comment.

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.

Risk Assessment

Another element of our testwork involved reviewing the department's November 2016 Financial Integrity Act Risk Assessment. Even though the issue of not complying with recovery efforts 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 the department not following federal regulations during recovery efforts.

Cause

The Director of CACFP and SFSP stated that all instances of noncompliance were caused by unexpected staff turnover and realignment of responsibilities. According to the Director of CACFP and SFSP, from now on, the department will send billing notices within specific timeframes as required by federal regulations.

Effect

When the department does not make timely requests to recover disallowed costs in accordance with federal regulations, there is an increased risk the department will not recover the funds. 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 Commissioner should ensure that the Director of CACFP and SFSP develops and implements procedures to ensure that disallowed payments are recovered timely and billing notices or referrals

for legal action are performed in accordance with federal guidelines. Management should also include in its annual risk assessment the risk and mitigating controls associated with not following federal regulations during recovery efforts.

Management's Comment

Child and Adult Care Food Program (CACFP)

We concur.

The department concurs that five out of sixty CACFP reports had late billing notices; however steps have been taken to correct this condition and all appropriate billing notices have since been sent. Two of the entities in question have since been referred to the Attorney General's office for collections. One of the reports falls below the department's \$100 threshold for collection and is no longer collectable.

Food Program management has added 4 new program specialist positions and is cross training all positions to allow for better workflow and programmatic coverage. Food Program management has reviewed the collections process and is working closely with audit services, fiscal, and legal to issue all billing notices within the designated timelines.

Summer Food Service Program

We concur.

All four entities in question are no longer participating in the SFSP program. Three of these entities have since been referred to the Attorney General's office for collections. We have sent three billing notices to the fourth entity, and we will refer to the Attorney's General's office for collection if no response is received.

Food Program management has added 4 new program specialist positions and is cross training all positions to allow for better workflow and programmatic coverage. Food Program has reviewed the collections process and is working closely with the department's audit services, fiscal, and legal to issue all billing notices within the designated timelines.

Finding Number	2017-025
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award Identification Number	2012IN109945, 2014IN109945, 2015IN109945, 201616N109945, and 201717N109945
Federal Award Year	2012 and 2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2016-031
Pass-Through Entity	N/A
Questioned Costs	N/A

For the fourth consecutive year, the Department of Human Services did not ensure that Summer Food Service Program for Children subrecipients served and documented meals according to established federal regulations

Background

The Tennessee Department of Human Services (DHS) administers the Summer Food Service Program for Children (SFSP) on the state level. The department provides subrecipients, known as sponsors, federal reimbursements from the U.S. Department of Agriculture for eligible meals served to individuals who meet age and income requirements. In order to receive reimbursements for meals, sponsors must comply with the federal and state requirements. Sponsors may operate the program at one or more feeding sites, which are the locations where meals are served.

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 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 2017 program crossed two state fiscal years:

- 2017 (July 1, 2016, through June 30, 2017, with the month of June falling during our review period); and
- 2018 (July 1, 2017, through June 30, 2018, with the month of July falling during our review period).

Condition

We selected 23 of the 52 sponsors the department approved for the 2017 program, using a combination of systematic, haphazard, and random selection methods for a total of 38 feeding sites. We observed a meal service at the 38 SFSP feeding sites for the 23 different sponsors selected for our testwork.

Overall, we noted 13 different types of meal service noncompliance at 21 of 38 feeding sites visited (55%), ranging from 1 to 4 SFSP violations per site. In this finding, we included 6 types of noncompliance that we noted at 16 sites, representing 11 sponsors. The remaining 7 types of noncompliance did not rise to the level of a finding and are not included in this finding; however, we communicated the details of each instance of noncompliance to DHS management.

We observed the following types of noncompliance with the SFSP program requirements:

- 8 sponsors served and documented incomplete first meals;
- 2 sponsors served and documented incomplete second meals;
- 4 sponsors served meals outside approved times;
- 3 sponsors allowed children to consume meals off-site;
- 3 sponsors documented incorrect meal counts on the daily meal count form; and
- 1 sponsor served three meal types, which exceeded the limit of two meal types.

The above-mentioned instances of noncompliance substantiate grounds for disallowance of program payments. We discussed each instance of noncompliance and its allowability for program reimbursement with sponsors and their site personnel, who agreed to correct the meal count forms and claim only reimbursable meals. We followed up to ensure the sponsors claimed only reimbursable meals, and we documented in finding 2017-026 of this report any errors noted during our follow-up review.

As in the three prior audits, we reported that sponsors had not complied with established federal regulations required for meal service at feeding sites. DHS management concurred in part with the most recent prior finding and agreed with the violations. In its six-month follow-up report to the Comptroller, management stated that it continues to strengthen training for SFSP sponsors; however, we still noted noncompliance. The sponsors noted in this finding were returning agencies for 2017 SFSP and, in fact, have received years of training by the department's staff. Of the 11 sponsors included in this finding, 9 have 4 years or more of experience in SFSP. We have reported issues with 10 of these sponsors in at least 1 finding for the 3 prior audits. Given the fact that these sponsors have a long-standing relationship with the department in this program and have received repeated training to correct continued noncompliance, we believe the department's management has not focused on removing habitually noncompliant sponsors from the program.

Risk Assessment

Another element of our testwork involved reviewing DHS's November 2016 Financial Integrity Act Risk Assessment. Even though we reported in the prior-year finding that management had not identified these specific risks of noncompliance in the department's annual risk assessment, we once again determined that management did not include in the assessment the specific risks and mitigating controls (such as removal of sponsors from the program) 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>²⁵
<p>Sponsors served and documented incomplete breakfasts.</p> <p>and</p> <p>Sponsors served and documented incomplete lunches.</p>	<p>For a breakfast to be a reimbursable meal, it must contain:</p> <ul style="list-style-type: none"> • 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. <p>For a lunch or supper to be a reimbursable meal, it must contain</p> <ul style="list-style-type: none"> • 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.
Sponsors served meals outside approved times.	Meals served outside of approved times or dates of operation are not reimbursable.
Sponsors allowed children to consume meals off-site.	Meals consumed off-site are not reimbursable.
Sponsors documented incorrect meal counts on the daily meal count form.	Sponsors must keep full and accurate records. . . . All sponsors must use daily site records in order to document the number of Program meals they have served to children.
Sponsor exceeded the limit of two meal types served per day.	Sponsors may serve one or two meals a day at open, restricted open, and enrolled sites. . . . the maximum number of meals allowed at a site under the regulations [Title 7, <i>Code of Federal Regulations</i> (CFR), Part 225, Section 16(b)] must not be exceeded (two meals for open, restricted open, and enrolled sites).

²⁵ 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.

Cause

Management of the department has not yet implemented effective internal controls to adequately address the repeat noncompliance occurring at the sponsors' feeding sites.

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 after the meal observation while at the feeding site and were given the explanations outlined in Table 2.

Table 2: Reasons for Noncompliance

Type of Noncompliance	Reasons for Noncompliance
Sponsors served and documented incomplete first meals and second meals.	<ul style="list-style-type: none">• Sponsors did not notice that children did not take all required meal components.• Feeding site personnel were not aware what components constituted a complete meal.• Feeding site personnel did not notice that all the required meal components were not delivered.• Sponsors were unaware that the meal components served did not meet the requirements.• Sponsor was unaware that only complete meals were reimbursable.• Sponsor made an error on the menu and did not include all the components.
Sponsors served meals outside approved times.	<ul style="list-style-type: none">• Sponsor did not request DHS to change the meal service time to match the actual times meals were served.• Sponsor documented meals served to children who showed up after the approved times.• Sponsor was aware but disregarded the approved meal service time.
Sponsors allowed children to consume meals off-site.	<ul style="list-style-type: none">• Sponsors were not aware children must consume SFSP meals on-site.• Sponsor did not notice children left the feeding site with SFSP meals.
Incorrect count of meals	<ul style="list-style-type: none">• Sponsors stated they lost count because the meal service was hectic or fast paced on the day of our observation.• Sponsors were not properly trained.
Unauthorized number of meal types served	<ul style="list-style-type: none">• Sponsor was unaware that only two meal types could be served at one feeding site.

Source: Based on our observations of meal service at the sponsors' feeding sites.

We discussed the issues presented within this finding with DHS management; however, the department did not provide any additional information to explain sponsors' continued noncompliance or any planned actions to address sponsors who refuse to comply with federal requirements.

Effect

As a pass-through entity for SFSP, the department is responsible for ensuring that SFSP sponsors comply with federal and state requirements and taking necessary action for sponsors that continue not to comply after sufficient training. When the department cannot ensure that sponsors comply with federal requirements, it could have to forfeit, or the federal government could reduce, federal funds awarded.

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 Commissioner and the Director of Child and Adult Care Food Program and SFSP should ensure by providing more effective training and program oversight that sponsors participating in SFSP serve and claim meals for reimbursement based on federal regulations.

More specifically, management should

- reevaluate the effectiveness of training by emphasizing best program practices and focusing on problematic areas;
- consider mandatory ongoing training for high-risk sponsors, during the duration of the program to reinforce sponsors' and site personnel's understanding of the program;
- assess the effectiveness of sponsors' training and proactively assist sponsors during training sessions of their site personnel;
- focus on new and high-risk sponsors by strengthening program support before and during the duration of program;
- consider having a higher presence of Technical and Training Assistants (TTAs) in the field prior to and during the duration of the program; and
- consider requiring all new sponsors to obtain satisfactory practical program experience by requiring prior program participation (e.g., as a site supervisor) prior to becoming a sponsor.

The federal requirements state that meals that do not meet specific criteria are not reimbursable through the federal grantor. If management decides to continue to reimburse sponsors who have not complied with federal program requirements, the department must use state, not federal funds, to reimburse the sponsors and should establish a process and applicable requirements to monitor and justify the use of state funds to feed the participants in the program.

The continuous lack of compliance by experienced and trained sponsors shows a lack of effective training, sponsors' unwillingness to comply with program requirements, or both. If sponsors continue to serve meals that are not in compliance with federal regulations and report meals incorrectly, management should impose additional conditions on the sponsors or take other actions, as described in Title 2, CFR, Part 200, Sections 207 and 338. Management should also include in its annual risk assessment the risk and mitigating controls associated with sponsors not following federal regulations while serving meals.

Management's Comment

We concur.

The Department acknowledges that non-compliance and errors occur in the administration of the Summer Food Program and remains committed to efforts to improve and taking appropriate action where warranted pursuant to 7 C.F.R. § 225. 113. However, the department maintains that no monitoring plan or training activities can ensure complete compliance with all requirements. The findings suggest that agency action will result in no instances of non-compliance at the site level; however, this is not a reasonable standard of review and is not federally required.

The Department continues to provide federally required monitoring and training. The standard for which the department should be reviewed is whether federal mandated monitoring is occurring, whether the department's monitoring efforts properly identify administrative errors, and whether the department takes appropriate action upon making a determination of errors or non-compliance.

The Audit Services monitoring findings report disallowed meal costs based on differences between meals observed and claimed by the sponsors. As required by federal law and guidance, the disallowed meal costs are resolved through the corrective action and Serious Deficiency process which includes the sponsors' full due process rights through appeal as required by federal law. It should also be noted that the Division of Audit Services identified the same issues noted in this condition are also identified through monitoring of the sponsors.

The SFSP sponsors are trained by the department prior to program operation. The SFSP sponsors are then responsible for training the site supervisors who operate the SFSP feeding sites. In addition, the department offers online training to site supervisors and sponsors. All SFSP trainings are developed and conducted in conjunction with USDA FNS. Additionally, the department has added four (4) new program specialists to help address training needs and increase the presence of the department through on-site training and technical assistance. Additional training and technical assistance are available to sponsors upon request. The department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future noncompliance, but does not act as a complete preventive control.

Most common errors made by the sponsor's sites are not significant, do not constitute intentional non-compliance, do not have a material effect on the program and are not indicative of fraud. Furthermore, it is not a reasonable expectation or a federal requirement that each and every site be monitored or that commonly made errors result in the sponsor's disqualification from participation in the programs.

Finding Number	2017-026
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	201616N109945 and 201717N109945
Identification Number	
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2016-029
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.559	201616N109945	FY2017: \$49,143
10.559	201717N109945	FY2018: \$2,135

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/or that sponsors claimed meals and received reimbursements in accordance with federal guidelines, resulting in \$51,278 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 (the department). As a pass-through entity for SFSP funds, the department is responsible for monitoring subrecipients, known as sponsors, 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 of SFSP crossed two state fiscal years. Our audit scope was July 1, 2016, through June 30, 2017, and our SFSP review included the following periods:

- summer 2016 (May through September 2016 with the months of July through September falling within our audit scope); and
- summer 2017 (May through September 2017 with the months of May and June falling within our audit scope).

The department uses the Tennessee Information Payment System (TIPS) to process reimbursement payments to sponsors. The department 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. During the application process and before sponsors can begin in the program, the department approves the maximum number of meals each sponsor can serve and claim at each of its individual feeding sites, known as the site capacity. Sponsors can request to change these meal-serving limits as needed to accommodate summer program operations; if approved, department staff document the new approved serving capacities in TIPS.

Our testwork included a review of meal reimbursement claims paid to sponsors during fiscal years 2017 and 2018 as described above for the summer months applicable to each program period. We planned our testwork as follows:

- We selected a nonstatistical, random sample of 60 meal reimbursement claims, totaling \$4,744,592, from the population of 141 SFSP sponsors' meal reimbursement claims paid during state fiscal year 2017, totaling \$9,970,914.
- For our meal service observation testwork, we selected 38 meal services representing 23 sponsors. We documented the errors noted during our meal observations in Finding 2017-025. We followed up with 23 sponsors to determine whether subrecipients claimed the correct number of meals based on our day of observation. We compared the specific day we observed the meal service and verified the monthly site totals the sponsor claimed for reimbursement. Based on the results of our follow-up for the 23 sponsors, we also expanded our review for 6 sponsors, as shown in **Table 5**.

Based on our review of the sponsors' claims and our observation of meal services, we determined that the department reimbursed sponsors for inaccurate meal reimbursement claims and did not identify sponsors' noncompliance with meal service requirements or federal requirements. Specifically, we found that

1. sponsors did not maintain or could not provide complete and accurate supporting documentation for meal claims submitted to the department for reimbursement;
2. sponsors claimed meals above the approved serving limits;
3. sponsors served and claimed meals outside the approved dates;
4. sponsors did not claim the number of meals we observed as served and did not maintain accurate documentation of served meals for that day and the month we performed the meal observation, despite the fact that we discussed the instances of meal service noncompliance with sponsors' and sites' staff at or after our visit; and
5. in instances where we expanded our review of sponsors' documentation, sponsors could not provide accurate supporting documentation for meal reimbursement claims filed with the department.

As reported in findings in the three prior audits, we found 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 sponsor deficiencies were not the

result of the department's inadequate sponsor monitoring. However, federal requirements clearly state that the department has to establish adequate controls to reasonably ensure the department and its sponsors comply with federal regulations.

Risk Assessment

We reviewed the department's November 2016 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 effective oversight and preventive/detective controls for the errors and noncompliance noted in this continuing condition.

Condition A and Criteria: *Claims were not accurate because they were incomplete and/or were submitted based on inaccurate meal counts*

Our testwork revealed that for 44 of 60 meal reimbursement claims tested (73%) representing 35 sponsors, 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	Claim Count per Sponsor	Questioned Costs ^{*†}	Number and Type of Meals Represented in Questioned Costs
Sponsor 1	1	\$5,379	964 lunches 1,993 snacks
Sponsor 2	1	\$0	-
Sponsor 3	1	\$0	-
	2	\$4	1 lunch
Sponsor 4	1	\$368	104 breakfasts 39 lunches
	2	\$142	36 lunches 2 suppers
Sponsor 5	1	\$19	5 lunches
Sponsor 6	1	\$1,152	238 breakfasts

Sponsor	Claim Count per Sponsor	Questioned Costs**†	Number and Type of Meals Represented in Questioned Costs
			172 lunches
Sponsor 7	1	\$0	-
Sponsor 8	1	\$1,045	153 breakfasts 192 lunches
Sponsor 9	1	\$0	-
	2	\$416	51 breakfasts 84 lunches
	3	\$0	-
Sponsor 10	1	\$11	3 suppers
	2	\$0	-
Sponsor 11	1	\$0	-
Sponsor 12	1	\$1,422	147 breakfasts 296 lunches
Sponsor 13	1	\$4	1 lunch
Sponsor 14	1	\$344	114 breakfasts 27 lunches
	2	\$1,062	22 breakfasts 271 lunches
Sponsor 15	1	\$1,480	31 breakfasts 304 lunches 310 snacks
Sponsor 16	1	\$262	70 lunches
Sponsor 17	1	\$565	98 lunches 93 breakfasts
Sponsor 18	1	\$158	18 breakfasts 32 lunches
Sponsor 19	1	\$131	56 breakfasts 3 lunches
Sponsor 20	1	\$7	2 lunches
	2	\$7	2 lunches
Sponsor 21	1	\$631	284 breakfasts 29 snacks
Sponsor 22	1	\$12,576	331 breakfasts 2,618 lunches 2,328 snacks
Sponsor 23	1	\$464	49 breakfasts 49 lunches 49 snacks
Sponsor 24	1	\$0	-
Sponsor 25	1	\$0	-
Sponsor 26	1	\$34	9 lunches
Sponsor 27	1	\$23	5 lunches

Sponsor	Claim Count per Sponsor	Questioned Costs**†	Number and Type of Meals Represented in Questioned Costs
			5 snacks
Sponsor 28	1	\$828	221 lunches
	2	\$0	-
Sponsor 29	1	\$543	63 breakfasts 109 lunches
Sponsor 30‡	1	\$0	1,032 breakfasts 3,549 lunches 2,067 suppers
	2	\$0	2,651 breakfasts 3,576 lunches 15,588 suppers
Sponsor 31	1	\$1,469	250 breakfasts 250 lunches
Sponsor 32	1	\$1,365	297 lunches 285 snacks
Sponsor 33	1	\$869	102 lunches 549 snacks
Sponsor 34	1	\$0	-
Sponsor 35	1	\$37	10 lunches
Total		\$32,817	42,289 meals

*Sponsors without questioned costs indicate that the review found the sponsor had underclaimed meals.

†We calculated the amounts of questioned costs for selected claims by reviewing supporting documentation, or lack thereof, as follows: 1) for sponsors operating 100 or more feeding sites for the selected claim period, we haphazardly selected 25 sites; and 2) for sponsors operating 1 to 99 feeding sites for the selected claim period, we haphazardly selected 15 sites, or all sites if sponsors operated less than 15 sites.

‡We requested Sponsor 30 provide us the daily meal count forms to support meals claimed in TIPS; however, the sponsor did not provide us any meal count documentation even after we made several attempts. Ultimately, we were able to obtain copies of the sponsor's daily meal count forms from the department's Audit Services unit and did not question any costs since we were able to verify the sponsor's meal count documentation.

Condition B and Criteria: *Sponsors claimed meals above the approved serving limits*

Our testwork revealed that for 15 of 60 meal reimbursement claims tested (25%) representing 14 sponsors, sponsors claimed meals above the department's approved maximum number of approved meals for the sponsors' feeding sites.

According to the 2016 *Administration Guide – Summer Food Service Program*,

Non-Reimbursable Meals

Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . [m]eals over the cap.

Questioned Costs for This Condition

See **Table 2** for details of questioned costs for this condition.

Table 2
Summary of Questioned Costs for Claiming Meals Above Approved Limits

Sponsor	Claim Number	Questioned Costs	Overall Number and Types of Meals Claimed Above the Approved Limits
Sponsor 1	1	\$322	86 lunches
Sponsor 5	2	\$401	53 breakfasts 77 lunches
Sponsor 7	3	\$1,159	36 breakfasts 289 lunches
Sponsor 9	4	\$7,778	2,077 lunches
Sponsor 12	5	\$75	20 lunches
Sponsor 13	6	\$232	62 lunches
Sponsor 16	7	\$41	11 lunches
Sponsor 20	8	\$4	1 lunch
	9	\$19	5 lunches
Sponsor 21	10	\$19	8 breakfasts 2 snacks
Sponsor 22	11	\$4,950	109 breakfasts 1,115 lunches 526 snacks 20 suppers
Sponsor 28	12	\$206	58 breakfasts 22 lunches
Sponsor 33	13	\$41	11 lunches
Sponsor 36	14	\$19	5 lunches
Sponsor 37	15	\$30	8 suppers
Total		\$15,296	4,601 meals

Condition C and Criteria: *Sponsors served and claimed meals outside the approved dates*

Our testwork revealed that for 2 of 60 meal reimbursement claims tested (3%), 2 sponsors claimed meals outside the approved meal serving dates, as shown and approved by the department in TIPS.

According to the 2016 *Administration Guide – Summer Food Service Program*,

Non-Reimbursable Meals

Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . [m]eals served outside of approved timeframes or approved dates of operation.

Questioned Costs for This Condition

See **Table 3** for details of questioned costs for this condition.

Table 3
Summary of Questioned Costs for Claiming Meals Outside Approved Dates

Sponsor	Questioned Costs	Number and Types of Meals Claimed Outside Approved Dates
Sponsor 5	\$824	220 suppers
Sponsor 42	\$206	55 suppers
Total	\$1,030	275 meals

Condition D and Criteria: *Claims were not accurate because they were submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review)*

During the 2017 program, we observed 38 SFSP meal services for 23 sponsors. For the dates of our meal observations, we followed up and reviewed the meal count forms the sponsors maintained and used to calculate the meal reimbursement claims submitted to the department. We also reviewed the sponsors' monthly meal count totals for the meal types we observed.

Our testwork revealed that 8 of 23 sponsors, at 14 feeding sites, claimed reimbursement based on inaccurate documentation:²⁶

- i) *Day of observation* – four sponsors, at seven sites, did not claim the correct number of meals that we physically observed during our observation day; and
- ii) *Month of observation* – six sponsors, at nine sites, did not have the correct documentation to support the meal reimbursement claim submitted for the meal type for the month.

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 2016 *Administration Guide – Summer Food Service Program* states,

Unallowable costs are costs for which Program funds may not be used. They include, but are not limited to . . . [m]eals served in violation of Program requirements.

²⁶ Two sponsors representing two sites had incorrect documentation for both the day of our observation and the month we reviewed.

Questioned Costs for This Condition

See **Table 4** for details of questioned costs for this condition.

Table 4
Summary of Questioned Costs for Meal Service Observation Follow-Up

Sponsor	Questioned Costs*	Number and Types of Meals Represented in Questioned Costs
Sponsor 6	\$0	-
Sponsor 9	\$4	4 snacks
Sponsor 15	\$25	2 lunches 19 snacks
Sponsor 19	\$890	67 breakfasts 194 lunches
Sponsor 38	\$0	-
Sponsor 39	\$47	8 lunches 18 snacks
Sponsor 40	\$31	8 lunches
Sponsor 41	\$0	-
Total	\$997	320 meals

*Sponsors without questioned costs indicate that the review found that the sponsor underclaimed meals.

Condition E and Criteria: *Claims were not accurate because they were submitted based on inaccurate meal counts (Expanded Review)*

Of the 38 meal services that we followed up on, we expanded our claim review for 6 sponsors (16%) on a case-by-case basis, using our judgement and considering our overall present and prior experience with each sponsor, including types of meal service noncompliance; organization of accounting records; and communication and cooperation. We expanded our review to include additional feeding sites for specific meal types. See **Table 5** for the extent of our review of the 6 sponsors. Based on our review of supporting documentation during our expanded testwork, we noted that 5 of the 6 sponsors (83%) either could not provide accurate support for the meals claimed or submitted claims for reimbursement based on inaccurate meal counts.

Table 5
Details of Expanded Review

Sponsor	Expanded Site Reviewed	Expanded Period	Expanded Meal Type
Sponsor 9	Site 1	July 2017	Breakfast
	Site 1		Lunch
	Site 2		Lunch
	Site 3		Lunch
Sponsor 19	Site 1	June 2017	Lunch
	Site 2		Breakfast

Sponsor	Expanded Site Reviewed	Expanded Period	Expanded Meal Type
	Site 3	July 2017	Lunch
	Site 4		Lunch
	Site 5		
Sponsor 38	Site 1	June 2017	Lunch
	Site 2		Lunch
	Site 3		Lunch
	Site 4		Snack
	Site 5		Lunch
Sponsor 39	Site 1	June 2017	Lunch
	Site 2		Snack
	Site 3		Lunch
	Site 4		Snack
	Site 5		Lunch
Sponsor 40	Site 1	July 2017	Lunch
	Site 2		
	Site 3		
	Site 4		
	Site 5		
Sponsor 41	Site 1	July 2017	Lunch
	Site 2		Lunch
	Site 3		Snack
	Site 3		Lunch
	Site 4		Lunch

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 6** for details of questioned costs for this condition.

Table 6
Summary of Questioned Costs for Expanded Review

Sponsor	Questioned Costs*	Number and Type of Meals Represented in Questioned Costs
Sponsor 19	\$491	128 lunches
Sponsor 38	\$0	-
Sponsor 39	\$19	5 lunches

Sponsor 40	\$203	53 lunches
Sponsor 41	\$425	105 lunches 25 snacks
Total	\$1,138	316 meals

*Sponsors without questioned costs indicate that the review found that the sponsor underclaimed meals.

Cause

The department does not require the subrecipient to provide supporting documentation for each meal reimbursement claim before payment. The department instead relies on its Audit Services unit to review meal reimbursement claim supporting documentation during monitoring visits and to train sponsors about the federal program requirements. We discussed the issues presented within this finding with department management; however, the department did not provide any additional information to explain subrecipients' inaccurate claim reporting.

“Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” 2 CFR 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. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

In an effort to determine the cause of the noncompliance at the sponsor level, we discussed the errors with the sponsors, who provided us the explanations outlined in **Table 7**.

Table 7
Reasons for Noncompliance

Conditions	Sponsors' Reasons for Noncompliance
Condition A: Claims were not accurate because they were incomplete and/or were submitted based on inaccurate meal counts.	Calculation error, lack of oversight, issues with TIPS, personnel changes, lack of department responses, time restrictions for submitting claims, missing documentation, documentation noncompliance, the exact reason could not be determined, or no reason was provided.
Condition B: Sponsors claimed meals above the approved serving limits.	Calculation error, lack of oversight, misunderstanding of the department's process for approved capacities, failure to obtain approval from the department, lack of knowledge about sites' capacity limits, the exact reason could not be determined, or no reason was provided.
Condition C: Sponsors served and claimed meals outside the approved dates	A failure to update dates in TIPS and the exact reason could not be determined.
Condition D: Claims were not accurate because they were submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review).	Calculation error, lack of oversight, or the exact reason could not be determined.
Condition E: Claims were not accurate because they were submitted based on inaccurate meal counts (Expanded Review).	Calculation error, lack of oversight, or the exact reason could not be determined.

Effect

As a pass-through entity for SFSP, the department is responsible for ensuring that sponsors comply with federal and state requirements. When the department cannot do so, it will continue to reimburse sponsors for unallowable expenditures resulting from errors, noncompliance, fraud, waste, and 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.

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 for each applicable fiscal year.

Table 8
Summary of Questioned Costs for All Conditions

Conditions	State Fiscal Year 2017 Questioned Costs*	State Fiscal Year 2018 Questioned Costs†
Condition A: Claims were not accurate because they were incomplete and/or were submitted based on inaccurate meal counts.	\$32,817	\$0
Condition B: Sponsors claimed meals above the approved serving limits.	\$15,296	\$0
Condition C: Sponsors served and claimed meals outside the approved dates	\$1,030	\$0
Condition D: Claims were not accurate because they were submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review).	\$0	\$997
Condition E: Claims were not accurate because they were submitted based on inaccurate meal counts (Expanded Review).	\$0	\$1,138
Subtotals	\$49,143	\$2,135
Total Questioned Costs	\$51,278	

*Includes payments made during the period July 1, 2016, through June 30, 2017.

†Includes payments made during the period July 1, 2017, through September 30, 2017.

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. 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.

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 and the Director of Child and Adult Care Food Program (CACFP) and SFSP should 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 agrees that our monitoring process can result in disallowance of meal costs similar to what the state auditors noted in this finding. The department's Audit Services monitoring findings report disallowed meal costs based on differences between meals observed and claimed by the sponsor. The disallowed meal costs are resolved through the corrective action and Serious Deficiency process which includes the sponsors' full due process rights through appeal as required by federal law.

The department implemented a process in 2017 to review a high risk SFSP sponsor's claims prior to payment. Based on the success of this claim review, the department is taking steps to establish a formal claim validation process for identified high risk sponsors to strengthen the food program's integrity.

SFSP sponsors are trained by the department prior to program operation. SFSP Sponsors are then responsible for site supervisors training who operate the SFSP feeding sites. The department provides training resources for Sponsors to use in their Site Supervisor Trainings including training on point of service meal counts and how to accurately complete meal count documentation. Additional trainings and technical assistance are available at Sponsor request.

All SFSP trainings are developed and conducted in conjunction with USDA FNS. Additionally, the department has added four (4) new program specialists to help address training needs and increase the presence of the department through on-site training and technical assistance.

The department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future noncompliance, but does not act as a complete preventive control.

Condition A: *Claims were not accurate because they were incomplete and/or were submitted based on inaccurate meal counts*

We concur.

It is important to note that 15 of the 35 Sponsors identified had questioned costs below the department's \$100 recoupment threshold and would not be recovered. It is also important to note that the state auditors did not net the sponsors over reporting meals with its underreporting of

meals; therefore, the questioned costs identified in this condition did not reflect the true amount of disallowed meals costs.

The department agrees that our monitoring process can result in disallowance of meal costs similar to what the state auditors noted in this condition.

The department will move to recover any supported disallowed meal costs contingent upon the receipt of necessary documentation to support the state auditors' conclusions.

Condition B: *Sponsors claimed meals above the approved serving limits*

We concur in part.

It is important to note that 8 of the 15 sponsors identified had questioned costs below the department's \$100 recoupment threshold and would not be recovered. It is unclear why the state auditors would question actual costs to the sponsor of less than \$100 that the department's own monitoring process would not disallow because USDA - FNS recognizes such efforts as administratively burdensome and inefficient within Title 7 of the *Code of Federal Regulations*, which serves as federal guidance for the state's administration of this program.

The department agrees that our monitoring process can result in disallowance of meal costs similar to what the state auditors noted in this condition.

The department will move to recover any supported disallowed meal costs contingent upon the receipt of necessary documentation to support the state auditors' conclusions.

Condition C: *Sponsors served and claimed meals outside the approved dates*

We concur.

One (1) of the two (2) sponsors noted in this condition is no longer participating in the SFSP program.

Condition D: *Claims were not accurate because they were submitted based on inaccurate meal counts (Meal Service Noncompliance Follow-up Review)*

We concur in part.

It is important to note that seven (7) of the eight (8) sponsors identified had questioned costs below the department's \$100 recoupment threshold and would not be recovered. It is unclear why the state auditors would question actual costs to a Sponsor of less than \$100, that the department's own monitoring would not disallow because USDA FNS recognizes such efforts as administratively burdensome within Title 7 of the *Code of Federal Regulations*, which serves as federal guidance for the administration of this program.

When the department conducts SFSP monitoring visits and identifies this as an issue, the meals claimed above the number of meals observed during a site visit are disallowed and the associated dollar amount is requested back from the Sponsor. When sponsors under claim meals based on

the number of meals observed, sponsors are given the opportunity to submit a revised meal count, allowing them to claim the meals.

It is also important to note that the state auditors did not net the sponsors over reporting meals with its underreporting of meals; therefore, the full questioned costs identified would never be pursued because the department would net the over and underpayments as our federal guidance indicates. For three (3) of the eight (8) sponsors who under claimed meals, state auditors, by not netting the over and underpayments, has overstated the actual amount of disallowed meal costs the department could possibly recover in accordance with the federal regulators.

The department agrees that our monitoring process can result in disallowance of meal costs similar to what the state auditors noted in this condition.

The department will move to recover any supported disallowed meal costs contingent upon the receipt of necessary documentation to support the state auditors' conclusions.

Condition E: *Claims were not accurate because they were submitted based on inaccurate meal counts (Expanded Review)*

We concur in part.

It is important to note that two (2) of the five (5) sponsors identified had questioned costs below the department's \$100 recoupment threshold and would not be recovered. It is unclear why the state auditors would question actual costs to a sponsor of less than \$100, that the department's own monitoring would not disallowed because USDA FNS recognizes such efforts as administratively burdensome within the *Code of Federal Regulations*, which serves as federal guidance for the administration of this program.

When the department conducts SFSP monitoring visits and identifies this as an issue, the meals claimed above the number of meals observed during a site visit are disallowed and the associated dollar amount is requested back from the sponsor. When sponsors under claim meals based on the number of meals observed, sponsors are given the opportunity to submit a revised meal count, allowing them to claim the meals.

It is also important to note that the state auditors did not net the sponsors over reporting meals with its underreporting of meals; therefore, the full questioned costs identified would never be pursued because the department would net the over and underpayments as our federal guidance indicates. One of the sponsors noted in this condition has since been terminated from the SFSP due to the Department's intentional monitoring efforts.

The department agrees that our monitoring process can result in disallowance of meal costs similar to what the state auditors noted in this condition.

The department will move to recover any supported disallowed meal costs contingent upon the receipt of necessary documentation to support the state auditors' conclusions.

Auditor's Comment

As we have explained to the department's management and as noted in the finding, 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. Because we have identified a total of \$52,049 in questioned costs related to the Activities Allowed or Unallowed and the Allowable Costs/Cost Principles compliance requirements, we are bound by the federal regulations to report these costs in our Single Audit report. We cannot disregard questioned costs as suggested by the department's management.

Finding Number	2017-027
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	201717N109945
Identification Number	
Federal Award Year	2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2016-034
Pass-Through Entity	N/A
Questioned Costs	\$650,625

As noted in the prior audit, the Department of Human Services did not ensure that subrecipients accurately claimed meals served to children, resulting in \$650,625 of questioned costs

Background

The U.S. Department of Agriculture (USDA) funds the Summer Food Service Program for Children (SFSP) and the Child and Adult Care Food Program (CACFP). The Department of Human Services (the department) administers SFSP and CACFP on the state level and is responsible for providing subrecipients, also known as sponsors, with program requirements, training, monitoring, and other assistance to gain reasonable assurance that sponsors comply with and are aware of federal regulations and requirements. To receive payment, subrecipients submit reimbursement claims to the department online through the Tennessee Information Payment System (TIPS).

Sponsors are responsible for ensuring that numbers documented on the 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 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 documentation supporting the meal counts for all reimbursement claims for a minimum of three years.

Condition

As we have reported in the last four audits, the department's Audit Services unit still has not established proper internal controls to detect and analyze fraud risk factors or developed adequately enhanced subrecipient monitoring activities to identify high-risk and/or fraudulent SFSP subrecipients.

Based on our audits of SFSP, we review subrecipients that continue to submit meal reimbursement claims that suggest the subrecipients are unrealistically serving the same number of meals each

day or are serving high numbers of meals each day with no variance during the claim period. Given our experience, we believe that these meal service outcomes are unlikely at feeding sites, which are considered public open sites where any eligible child can drop in to receive a meal. As a result of our continued audit efforts, we are skeptical that subrecipients who submit these types of claims do so based on actual meals served to children. Because the department still does not have a strong monitoring process in place, we performed subrecipient meal observations and reviewed meal reimbursement supporting documentation. We found that, based on our observations and review (or the observations performed by the department monitors), the subrecipients typically served fewer meals on the days we observed (as evidenced by the significantly lower attendance records and our actual count of those served meals) compared to the attendance records the subrecipients had on file for days we did not visit. The USDA's Division of Food and Nutrition Services (FNS) has recognized these meal-claiming patterns as "red flags" in its 2016 *State Agency Monitor Guide*. We found no evidence that program management or staff reacted to these red flags.

We applied analytical procedures in our review of sponsors' supporting meal count documentation (Finding 2017-018 and 2017-026) and in our meal service observations (Finding 2017-025). Our review identified two SFSP subrecipients whose meal count documentation exhibited sponsors' staff claiming the same number of meals served each day for a period of time and higher participant attendance days (and thus higher meal counts) before and after a day when we or Audit Services physically observed and documented lower participant attendance. We identified clear fraud indicators present for these two subrecipients and expanded procedures outside of our regular testwork.

SFSP Subrecipients 1 and 2 had significantly lower attendance records on days we observed the meal service; therefore, we performed additional meal observations without the subrecipients' knowledge. We counted the number of children who showed up to eat on our dates of observation. Once the subrecipients submitted a meal reimbursement claim that included our observation days, we compared our count to the number of meals claimed as served at those feeding sites. We noted that Subrecipients 1 and 2 inflated the number of meals served and thus overclaimed for the days we were there to count the number of meals served to the children. See **Table 1** for details.

Table 1
SFSP Meals Auditor Observed vs. Meals Sponsor Claimed

Sponsor	Site	Meal Type Observed	Number of Meals Auditor Observed	Number of Meals Sponsor Claimed
Subrecipient 1	Site 1	Lunch	0	68
		Snack	0	67
	Site 2 (Visit #1)	Lunch	21	80
		Snack	0	80
	Site 2 (Visit #2)	Lunch	26	69
		Snack	0	68
	Site 3	Lunch	45	80
		Snack	0	80
	Site 4 (Visit #1)	Lunch	6	80
		Snack	0	80
	Site 4 (Visit #2)	Lunch	17	80
		Snack	2	80
	Site 5	Lunch	14	52
		Snack	0	52
	Site 6 (Visit #1)	Snack	4	80
	Site 6 (Visit #2)	Lunch	11	80
		Snack	4	80
	Site 7	Snack	0	61
	Site 8	Lunch	24	80
		Snack	0	80
Subrecipient 2	Site 1 (Visit #1)	Lunch	13	50
		Snack	0	50
	Site 1 (Visit #2)	Lunch	3	58
		Snack	0	20
	Site 1 (Visit #3)	Lunch	0	53
		Snack	0	14
	Totals		190	1,722

We also noted that three CACFP subrecipients' claims included fraud indicators. See Finding 2017-018 for details.

Risk Assessment

We reviewed the department's November 2016 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, specifically establishing a process to identify and follow up on fraud risk indicators and red flags.

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 2016 *Administration Guide – Summer Food Service Program*,

Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . [m]eals that were not served.

According to 7 CFR 226.10(c),

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

Cause

Insufficient Preventive Controls

The subrecipients mentioned in this finding were included in a prior audit finding (Finding 2016-034 in the 2016 *Single Audit Report*) related to questionable meal counts; however, program staff approved the subrecipients to participate in the 2017 summer program. The department did not take action based upon the prior audit finding that reported these subrecipients were not providing accurate claims for federal reimbursement. When subrecipients do not follow the program rules, the department can remove subrecipients from the program or reduce the number of sites or meals subrecipients are allowed to claim for reimbursement if there are concerns about the number of meals served. The department did not utilize either of these controls for these questionable subrecipients.

Insufficient Detective Controls

The department has shown some improvement in detective controls by increasing the number of monitoring findings in its monitoring reports, but ultimately the department has not yet reached the necessary level of detective controls to identify high-risk subrecipients or to take needed action when the subrecipients refuse to comply with federal requirements. The department could have but did not elect to monitor SFSP Sponsor 2, even though we identified this high-risk entity in our prior-year finding (Finding 2016-034 in the 2016 *Single Audit Report*). As such, the subrecipient continued to submit, and the department paid, claims that were not accurate. In summary, the

department did not always recognize or act on red flag indicators that continue to occur in the food programs.

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 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

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. 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.

Due to the nature of the food programs, unless an auditor is present at every meal service, it is unlikely that an exact amount of questioned costs can be determined. While we were not able to perform meal observations at all of the sites, we can conclude that the subrecipients' documentation was inadequate and unreasonable; therefore, we questioned the entire amount the department reimbursed the SFSP subrecipients, totaling \$650,625 for the summer 2017 program.

Table 2
SFSP Questioned Costs and Reimbursed Amounts

Subrecipient	State Fiscal Year 2018 Questioned Costs*
Subrecipient 1	\$567,476†
Subrecipient 2	\$83,149‡
Total Questioned Cost	\$650,625

*Source: The Tennessee Information Payment System.

†We questioned the entire claim net \$66 already questioned in Finding 2017-026.

‡We questioned the entire claim net \$425 already questioned in Finding 2017-026.

We questioned \$186,688 for the CACFP subrecipients (see Finding 2017-018).

Recommendation

The Commissioner and the Director of 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 improved preventive and detective controls, as well as additional monitoring controls that identify the pervasive pattern of sponsors claiming the same number of meals or lower attendance on meal observation days compared to non-observation days.

If subrecipients continue to maintain inadequate documentation for meal claim reimbursements, management should impose additional conditions upon the subrecipients such as

- requiring the subrecipient to become a feeding site under a subrecipient that has demonstrated its ability to run the program;
- requiring the subrecipient to submit documentation to the department each week so that fraud is detected before it is too late;
- reducing the subrecipient's site capacity amount or the number of sites; and/or
- disallowing subrecipients from the program completely.

If subrecipients continue to not comply with program requirements, the Commissioner and the Director of CACFP and SFSP can take other action, as described in 2 CFR 200.207 and 200.338. The Director of Audit Services should implement procedures to ensure that monitors appropriately follow up on unreasonable or unjustified meal count variances on meal observation days. Lastly, management should also include in its annual risk assessment the mitigating controls associated with unallowable costs charged to a federal program.

Management's Comment

We do not concur.

For FY 2017, the department monitored 149 of 396 food programs sponsors (CACFP and SFSP), which is 37% of the sponsors' population. Our required compliance rate according to Title 7 of the *Federal Code of Regulations* is 33.3% of the sponsors' population. The department monitored 332 of 2,464 feeding sites, which is 13% of the feeding site population. The department required compliance rate according to Title 7 of the *Federal Code of Regulations* is 10% of the feeding site population. We exceeded the USDA's food program monitoring requirements and the state auditors did not report any deficiencies in the completeness of our reports.

The department's monitors found and noted incorrect meal counts and attendance records in numerous monitoring reports, all of which are submitted to the Comptroller's Office as they are issued. We have also reported these violations in Public Chapter 798 reports which are submitted quarterly to the Tennessee General Assembly. We account for such violations in our program risk assessment each year as we plan our monitoring procedures.

It should be noted that the department's monitoring process contains over 200 financial and compliance procedures including, but not limited to, the following red flags/fraud factors that the department's monitors and auditors are required to look for during their on-site visits to the sponsoring organizations and feeding sites:

- If the meal counts are inconsistent with the numbers of children on site during the on-site visit;
- If the food expenses are extremely low or there is a large milk shortage;
- If the number of meals delivered has not ever been adjusted;
- If the same number of meals are reported every day for every meal service;

- If the meal counts are inconsistent with what was reported;
- If meal types are claimed that were not approved;
- If a large number of meals are disallowed due to deficient menus;
- If there are large number of meals left over during the on-site visit;
- If a large number of second meals are served;
- If the past five days of meal counts have large numbers but there are few children present on the day of the on-site visit;
- Receipts that are created in Word;
- If the receipt shows zero tax, determine if the purchase was made with WIC checks or an EBT card;
- If the number of items purchased is reasonable, based on the number of feeding participants;
- Dates of the purchases for the month and/or year that were printed on the receipts have not been altered;
- If the items and quantities of food purchased were reflected on the menus;
- The times and dates on the receipts for purchases;
- Whether the name of the agency is printed on the receipt; and
- If the agency is a not-for-profit, whether taxes on the purchases of food are consistent.

DHS procedures require that if any of these indicators are noted during a monitoring engagement, the monitor is to consult with their supervisor for further guidance on expanding the review.

While the state auditors can question all payments made to any food program sponsoring organization for any reason, the state auditors acknowledged in the finding that due to the nature of the food programs, unless an auditor is present at every meal service, it is unlikely that an exact amount of questioned costs can be determined. Our monitoring process is in accordance with Title 7 of the *Code of Federal Regulations* part 225 requirements, USDA-FNS policy directives and memorandums, Public Chapter 798 of the State law, Title 2 of the *Code of Federal Regulations* applicable parts, and the departmental policies and procedures. This restricts the monitors to disallowing cost only based on appropriate sufficient evidence that can be sustained on appeal by the sponsoring organizations, as required by Title 7 of the *Code of Federal Regulations*, Section 225.13 - Appeal procedures. Therefore, any questioned cost by the state auditors that is not based on appropriately supported disallowance of meals claimed and paid to the sponsors would not be sustained through the appeal process.

Monitoring efforts at Sponsor#1

On March 29, 2017 the department issued Sponsor #1 a Serious Deficiency and disallowed \$216,472.88 in meal cost for FY 2016. The subrecipient appealed, submitted a corrective action plan and reapplied for FY 2017 under the Federal Program requirements listed in Title 7 of the

Code of Federal Regulations. During FY 2017, the department coordinated its monitoring procedures with the Comptroller's team.

The state auditors failed to mention in the finding that based on their request, the department delayed the release of the monitoring report due to their concerns about Sponsor #1. Also, we informed the state auditors that the Division of Audit Services within the department identified Sponsor #1 as a high-risk sponsor and conducted an extensive and thorough review of Sponsor #1 during the summer of 2017. Despite federal regulations regulating payment, the department did not release the monitoring report until after we consulted with the state auditors. We released our monitoring report on October 17, 2017; Notice of Proposed Termination on November 28, 2017, which the subrecipient appealed; Notice of Proposed Termination on January 18, 2018; and Notice of Termination on February 20, 2018, all pursuant to federal regulation.

The department took all actions available to us under Title 7 of the *Code of Federal Regulations*, and due to the diligent efforts of the department's monitors, Sponsor #1 is no longer participating in the Summer Food Program.

Monitoring efforts at Sponsor #2

The department acknowledges that Sponsor #2 was not monitored in 2017 for the SFSP; however, Sponsor #2 was monitored under the Child and Adult Care Food Program during the same year. The monitoring report of Sponsor #2 was provided to the state auditors. In that monitoring report, we reported noncompliance with the food program requirements as follows:

1. The number of participants reported in the free, reduced, and paid categories was incorrect
2. The Sponsor reported incorrect meal counts
3. The Sponsor's menus did not meet USDA meal pattern requirements
4. The number of attendance days reported by the Sponsor was incorrect
5. The number of Supplements claimed exceeded the validated participant days
6. The Sponsor did not monitor feeding sites as required

Because of these monitoring efforts, this sponsor is on the "at-risk" watch list and will be monitored according to the department's policies and procedures. If conditions continue to exist, the department will take actions to remove them from the program and recoup disallowed costs as noted on our monitoring report.

Auditor's Comment

For the fourth year, we have shared our methods of fraud detection with management and monitors to help identify high-risk subrecipients based on fraud risk factors. Once a subrecipient is identified as high-risk and evidence of potential fraud has been identified, we fully expect management to expand procedures to obtain adequate evidence to initiate immediate proceedings to remove the ill-intended subrecipient from the program. We recognize that subrecipients have appeal rights; however, the USDA-FNS Senior Program Specialist has told us that for the SFSP

program the department does not need to go through the lengthy serious deficiency (SD) process which can prolong the termination of the sponsor from the program if it is clear the department suspects fraud.

For the Child and Adult Care Food Program (CACFP), the regulatory language specifies that both the corrective action plan (CAP) and SD are required and the department must follow through the processes. The specialist added that if monitors suspect clear fraud in CACFP, the department can suspend the payments and expedite the termination of the sponsor by sending one letter.

Based on this guidance, we believe the department could have and should have acted quickly to follow the expedited process. As described by management, we alerted the department to fraudulent activity by Subrecipient #1 in 2016 yet it took two years for the department to terminate the subrecipient from the SFSP program. Subrecipient 1 was paid \$567,476 for the 2017 Summer before management terminated the subrecipient from the SFSP program. Subrecipient 2 was paid \$83,149 for the 2017 Summer and is still eligible to participate in the SFSP program.

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	2017-028
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	8044 H126A160063 and 8044 H126A170063
Identification Number	
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Program Income
Repeat Finding	2016-017
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, fiscal staff for the Department of Human Services requested additional federal funds before ensuring all program income and refunds had been spent

Background

The U.S. Department of Education provides Vocational Rehabilitation Grants to help states operate comprehensive Vocational Rehabilitation (VR) programs that help individuals with disabilities gain, maintain, or return to employment. In Tennessee, the Department of Human Services (DHS) administers VR through its Division of Rehabilitation Services. The Department of Finance and Administration (F&A) is responsible for adequate cash management for all of DHS.

As DHS incurs expenditures, F&A 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 spent from the grant. These recoveries of expenditures are identified as refunds to the program. Per Title 34, *Code of Federal Regulations* (CFR), Part 361, Section 63(c)(3)(ii), to the extent available, VR regulations require the state to spend program income and refunds before requesting additional federal funds. F&A generally does not record expenditures of program income in the accounting records to demonstrate that program income has been spent. Instead, F&A generally demonstrates that fiscal staff have spent program income and refunds by reducing the amount of federal funds requested.

For example, assume DHS receives \$100 in program income and then spends \$200 for services A and B. The accounting records would show \$100 in federal funds expenditures for service A, \$100 in federal funds expenditures for service B, and \$100 in program income received as a credit against services A and B. In this example, F&A would bill the federal government \$100 (service A (100) + service B (100) – program income received (100)). This accounting treatment demonstrates that F&A used the \$100 in program income to fund \$100 of services A and B; however, it is important to note that until the program income appears in the billing records as a credit reducing the amount of federal funds requested, there are no accounting records that

demonstrate that the program income has been spent. As a result, if F&A requested \$200 for services A and B in this example, we would conclude that F&A violated regulations requiring program income to be spent before requesting additional federal funds, because the accounting system would not identify a disbursement of the \$100 in program income.

In the prior audit, we found that fiscal staff did not ensure that program income and refunds had been spent before requesting additional federal funds, and the Fiscal Directors and Accountants did not ensure that Child Support Enforcement (CSE) expenditures were net of all applicable credits²⁷ and program income.

Department management concurred with the prior-year finding and stated, “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” and “The Department has taken several corrective action steps since the errors occurred.”

Based on our current testwork, we found that fiscal staff had ensured CSE expenditures were net of all applicable credits; however, we found that fiscal staff still did not ensure that program income and refunds had been spent before requesting federal funds.

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

We reviewed all 347 VR program income and refund cash receipts, totaling \$3,176,639, that fiscal staff received and recorded in Edison revenue accounts during the period July 1, 2016, through June 30, 2017.

For each transaction, we identified

- the date the department received the program income or refund;
- the next federal funds request date after the program income or refund was received; and
- the date the program income or refund was spent.

We contacted the federal grantor, the Rehabilitation Services Administration (RSA) within the U.S. Department of Education, for additional guidance related to compliance with the requirement to spend program income and refunds before requesting additional federal funds. We explained fiscal staff’s accounting process for program income and refunds, including reasonable delays between receiving and using program income that we believe are unavoidable in an environment with adequate internal controls. The RSA official noted, as an example, that he did not expect fiscal staff to delay requesting federal funds to meet payroll solely because fiscal staff received program income moments before planning to request the federal funds.

Based on this conversation, and after considering various factors related to the timing of processing program income and refunds, such as holidays, staff sick leave, and the average time it takes to

²⁷ 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.

process transactions, we did not consider program income and refunds to be available per 34 CFR 361.63(c)(3)(ii) until one week after receipt. Therefore, we noted no problems unless program income and refunds had been on hand for at least a week and fiscal staff requested additional federal funds without first spending the program income or refund.

We noted that for 31 of the 347 receipts of program income and refunds tested (9%), totaling \$55,023, F&A's Fiscal Directors and Accountants could not demonstrate that the program income and refunds had been spent before requesting additional federal funds. Per the accounting records, staff spent 25 receipts of program income and refunds, totaling \$54,877, from 1 to 23 days (average of 6 days) after the next request of federal funds. The remaining 6 items, totaling \$146, were still on hand and had not been spent by the end of the audit period, June 30, 2017. See **Table 1** below for more details.

Table 1
Vocational Rehabilitation Program Income Received

Days Late	Amount of Program Income	Number of Program Income Transactions
1	\$17,439	12
8	11,582	9
14	6,406	2
17	14,289	1
23	5,161	1
Not Disbursed	146	6
Totals	\$55,023	31

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed DHS' November 2016 Financial Integrity Act Risk Assessment and determined that top management assessed the risk that program income is not spent before additional federal cash draws as having a remote likelihood and small impact; however, management did not identify any mitigating controls related to the issue and stated that controls are operating effectively. Given the frequency with which we noted that program income was not spent before fiscal staff made additional federal cash draws in this audit and in prior audits, we concluded that management should have assessed the likelihood as reasonably possible (medium).

Criteria

34 CFR 361.63(c)(3)(ii) states,

Notwithstanding 2 CFR 200.305(a) and to the extent that program income funds are available, a State must disburse those funds (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional funds from the Department.

Cause

Based on discussion with the F&A Department Controller, this issue was primarily the result of decentralized accounting processes. Specifically, staff in one city were responsible for depositing program income; however, they did not perform the remaining accounting duties required to disburse the program income. Instead, the staff would mail (rather than fax or email) the documentation to fiscal staff in a nearby city, who would then perform the accounting duties required to disburse the program income. It appears that the delay inherent in these coordination activities, along with mail delivery times, may have caused most of the issues noted. The cause is not clear, however, because according to the Accountant and Fiscal Director, the Accountant did not rely on the mailed documentation to approve deposits in the financial management system during the audit period. Instead, the Accountant relied on the controls in place at the decentralized location and only performed a perfunctory review when approving deposits. According to the Department Controller, beginning in December 2017, the depositing and accounting functions are now centralized in one city, which should expedite disbursing VR program income in the future.

Effect

Failure to spend 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 or refund expenditures. 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 Commissioners of DHS and F&A should ensure that VR program income and refunds are spent prior to drawing additional federal funds. This should include verifying that staff deposit VR program income and refunds timely and identify receipts as VR program income and refunds in the accounting records timely. The Department Controller should ensure that fiscal staff take reasonable efforts to identify unidentified deposits timely and that staff document the nature and timing of these efforts.

The Commissioner of DHS should assess all significant risks, with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur in part.

All of the items noted in the finding were items that were deposited when received in accordance with the Department of Finance and Administration's Policy 25; however, the transactions were not identified as program income until after they were deposited. It should be noted that 21 of the 31 transactions were a result of two deposits. Once identified with adequate support, they were immediately recorded as program income and the corresponding offset to federal expenditures was completed. The clearing account in which the funds were recorded upon deposit must be reconciled and certified on a monthly basis ensuring that unidentified deposits are resolved in a timely manner.

The department recognized that the decentralized business process resulting in these deposits originally being recorded as unidentified receipts had become outdated and, accordingly, on December 1, 2017, cash receipting was centralized.

Auditor's Comment

Based on review of the support received by DHS staff, the staff had indicated on the documentation (such as the receipts) that the transactions were program income at the time of deposit.

Finding Number	2017-029
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	8044 H126A160063 and 8044 H126A170063
Federal Award Year	2016 through 2017
Finding Type	Significant Deficiency – Matching, Level of Effort, Earmarking Material Weakness – Reporting Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking Reporting
Repeat Finding	2016-039 2016-042
Pass-Through Entity	N/A
Questioned Costs	N/A

For the third year, fiscal staff for the Department of Human Services did not comply with financial reporting requirements for the Vocational Rehabilitation Grants to States program, and fiscal staff did not comply with maintenance of effort requirements

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 (the department or DHS) through its Division of Rehabilitation Services. The Department of Finance and Administration (fiscal staff) is responsible for performing all fiscal-related duties on behalf of the department, including the submission of financial reports to RSA. As part of the grant’s requirements, the state matches the federal funds by using state and other non-federal funds, such as funds from local governments and donations, to pay 21.3% of all Vocational Rehabilitation expenditures. Fiscal staff draw down federal Vocational Rehabilitation funds using the U.S. Department of Education’s G5 grants management system.

The department is required to file a Federal Financial Report, the SF-425 report, semi-annually for each federal fiscal year’s Vocational Rehabilitation grant. The semi-annual reporting periods are April 1 through September 30 and October 1 through March 31. Reports are generally due to RSA 45 days after the close of the reporting period.

Once it receives the SF-425 reports, RSA reviews the department’s reports and makes the following determinations:

- whether the department is permitted to carry over Vocational Rehabilitation funds into the next federal fiscal year;

- if the department must return any unobligated federal program income to RSA; and
- if the department complied with various compliance requirements.

General Reporting Requirements

Obligations

RSA requires grantees (in this case, the department) to track and report the amounts and funding sources of obligations.²⁸ In addition, the department must track these obligations by obligation date and in terms of their status as unliquidated or liquidated.²⁹

Program Income

In addition, RSA's instructions require the department to report the amount of program income expended in accordance with the federally prescribed alternative methodology. To ensure the expenditures of program income are included on the proper SF-425 report, the department must match expenditures of program income to the federal fiscal year (FFY) in which that program income was received. The process of matching the expenditures of program income to the year in which the income was received is necessary to record expenditures of program income on the correct SF-425 report.

RSA requires the department to complete a separate SF-425 report for each federal Vocational Rehabilitation grant award until each award's period of performance ends;³⁰ therefore, if the department carries over federal Vocational Rehabilitation funds into the subsequent federal fiscal year, the department must submit two SF-425 reports for each reporting period in the subsequent federal fiscal year.

During the 2015 single audit, we identified several critical deficiencies in the preparation of DHS' 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 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 prior audit period to correct the SF-425 reporting deficiencies. As part of the Corrective Action Plan, the department completed or revised SF-425 reports for the 2014-2017 grant awards during the current audit period.

To determine whether the department properly reported required financial information in its SF-425 reports during the current audit period, we tested the semi-annual SF-425 reports for the period ended September 30, 2016, for the FFY 2016 grant award and the report for the period ended

²⁸ Obligations are the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period.

²⁹ For reports prepared on an accrued expenditure basis, federal regulations require obligations to be classified as unliquidated when the corresponding expenditure for the obligation has not yet been recorded.

³⁰ Period of performance means the time during which the non-federal entity may incur new obligations to carry out the work authorized under the federal award.

March 31, 2017, for the FFY 2017 grant award. During the current audit, we found that the department had made improvements to the reporting processes, including

- creating a reporting policy,
- correcting accounting records,
- modifying accounting systems to track required information, and
- improving review and control processes.

Despite these steps to resolve these matters during the current audit period, we found that department management still did not ensure that the required SF-425 reports were accurately prepared during the audit period, July 1, 2016, through June 30, 2017.

Condition

Portions of the SF-425 Reports Were Incomplete or Inaccurate

(A) The Accountant incorrectly calculated the federal share of expenditures for line 10e of both reports. Federal expenditures were overstated by \$530,827 and \$74,115 in the FFY 2016 and FFY 2017 reports, respectively, due to fiscal staff improperly including federal expenditures arising from obligations incurred in prior federal fiscal years. Per RSA's period of performance guidance, if a contract is signed in FFY 2015, for example, the expenditures associated with the contract should be reported on the FFY 2015 report, even if the services provided under the contract are performed in FFY 2016 and beyond.

The Accountant also improperly excluded pending expenditure adjustments totaling negative \$95,934 from federal expenditures and instead reported these items as adjustments to federal unliquidated obligations. In addition, the Accountant improperly included a proposed adjusting journal entry that had not been recorded in the accounting records at the time the report was prepared that increased federal expenditures by \$243,399. The accounting records did not indicate that this transaction occurred during the reporting period. For both reports, the Accountant also understated federal expenditures (and overstated program income expended) due to reducing federal expenditures for unexpended program income. Since the program income was on hand and had not yet been used to reduce federal funds requests at the end of the reporting period, the reported federal expenditures should not have been reduced by the amount of program income on hand.

Finally, in the September 30, 2016, report, we identified a duplicate transaction totaling \$20,907 during our testwork procedures. This transaction was charged to the program twice, but a reversing entry corrected the error after the report was submitted.

Table 1
Federal Share of Expenditures Calculated Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	10e	Federal Share of Expenditures	\$40,241,238	\$39,364,747	\$876,491
2017	3/31/2017	10e	Federal Share of Expenditures	\$20,183,064	\$20,103,259	\$79,805

(B) The Accountant incorrectly calculated the federal share of unliquidated obligations for line 10f of both reports tested. For both reports, the Accountant relied on a Procurement Report extracted from the state's accounting system to determine the remaining amount of outstanding purchase orders. Based on that report, the Accountant improperly included a purchase order for a contract that is not associated with the Vocational Rehabilitation Grants to States (VR) program as well as two purchase orders that did not obligate 2016 grant award funds. In addition, while the reported numbers agreed with the Procurement Report data, the data did not always agree with the accounting records. The data was included in the calculation for line 10f in the amount of \$5,791,025 for the September 30, 2016, report tested and \$1,472,851 for the March 31, 2017, report tested. We requested an explanation of the difference from fiscal staff but did not receive a response. Because we could not determine the accurate amount to report, we prepared the State Audit Calculations below assuming that the procurement data was correct.

For the September 30, 2016, report tested, the Accountant also included an expenditure adjustment that was not booked until December of 2016, incorrectly estimated amounts of obligations, included at least \$150,000 in duplicate obligations, and incorrectly included pending expenditure adjustments as obligations instead of expenditures.

In the 2016 report we tested, the Accountant included \$281,679 in estimated unliquidated obligations; however, the Accountant did not include any estimated unliquidated obligations in the 2017 report. While the reporting instructions do not explicitly state whether estimates should be included, we concluded that, if performed consistently, it was reasonable to estimate the amounts of obligations associated with utilities and similar services where the department knows the service has been provided to the department as of the reporting date (and therefore constitutes a valid obligation), but the department is not aware of the amount of the obligation. We attempted to determine the potential estimate for unliquidated obligations for 2017 to ensure the Accountant was consistently reporting unliquidated obligations; however, we could not perform the calculations because the information was not readily available.

For the March 31, 2017, report tested, the Accountant improperly reduced the amount of unliquidated obligations reported by \$297,872 in program income received after the end of the reporting period.

Table 2
Federal Share of Unliquidated Obligations Calculated Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	10f	Federal Share of Unliquidated Obligations	\$6,145,906	\$5,607,169	\$538,737
2017	3/30/2017	10f	Federal Share of Unliquidated Obligations	\$1,740,134	\$2,038,006	(\$297,872)

(C) The Accountant incorrectly calculated the recipient share of expenditures for line 10j. Because these figures are calculated simultaneously as the federal share of expenditures and unliquidated obligations described in Sections A and B above, the reasons for the discrepancies in these figures are the same as described in Sections A and B.

Table 3
Recipient Share of Expenditures Calculated Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	10j	Recipient Share of Expenditures	\$13,054,271	\$12,742,808	\$311,463
2017	3/30/2017	10j	Recipient Share of Expenditures	\$5,730,568	\$5,755,311	(\$24,743)

(D) The Accountant entered the incorrect dates in field 11c for Indirect Costs “Period From” and 11d for Indirect Costs “Period To.” According to the report instructions, these fields should reference the period during which the approved Cost Allocation Plan is active, but the Accountant entered the reporting period instead.

Table 4
Dates for Indirect Costs Entered Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	11c	Indirect Costs “Period From”	October 1, 2015	July 1, 2014	N/A
2016	9/30/2016	11c	Indirect Costs “Period To”	September 30, 2016	Blank	N/A
2017	3/31/2017	11c	Indirect Costs “Period From”	October 1, 2016	July 1, 2014	N/A

- (E) The Accountant calculated the Indirect Cost Base and Federal Share of Indirect Costs incorrectly for lines 10d and 10f on both reports tested. The department's reporting methodology involved reporting all grant transactions that were not classified to a particular department ID as indirect costs. This methodology inaccurately reports some direct costs as indirect costs and excludes some indirect costs.

Table 5
Indirect Cost Base and Federal Share of Indirect Costs Calculated Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	11d	Indirect Cost Base	\$7,541,463	\$6,087,802	\$1,453,661
2016	9/30/2016	11f	Federal Share of Indirect Cost	\$6,029,510	\$4,885,505	\$1,144,005
2017	3/31/2017	11d	Indirect Cost Base	\$2,812,095	\$2,537,753	\$274,342
2017	3/31/2017	11f	Federal Share of Indirect Cost	\$2,203,460	\$1,987,549	\$215,911

- (F) The Accountant incorrectly reported program income received for line 10l of the FFY 2017 March 31, 2017, report. The Accountant incorrectly excluded one journal entry, resulting in an understatement of \$28,544.

Table 6
Program Income Received Reported Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2017	3/31/2017	10l	Total Federal Program Income Earned	\$990,959	\$1,019,503	(\$28,544)

- (G) The Accountant incorrectly reported program income expended for line 10n on both reports. The FFY 2016 report overstated the amount of program income expended by the end of the reporting period by \$14,575, and the FFY 2017 report understated the amount of program income expended by \$5,691.

Table 7
Program Income Expended Reported Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	10n	Program Income Expended in Accordance with the Addition Alternative	\$3,722,001	\$3,707,426	\$14,575
2017	3/31/2017	10n	Program Income Expended in Accordance with the Addition Alternative	\$990,959	\$996,650	(\$5,691)

(H) The Accountant incorrectly reported the recipient share of unliquidated obligations in line 12d on both reports. Because these figures were determined simultaneously with the federal share of unliquidated obligations reported on line 10f, the reasons for these discrepancies are the same as in section B above.

Table 8
Recipient Share of Unliquidated Obligations Reported Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	12d	Recipient Share of Unliquidated Obligations	\$1,593,254	\$1,464,050	\$129,204
2017	3/30/2017	12d	Recipient Share of Unliquidated Obligations	\$137,206	\$161,949	(\$24,743)

(I) The Accountant incorrectly reported Federal Program Income Transferred to the Independent Living Services for Older Individuals who are Blind Program in line 12f of the 2016 report tested. The Accountant improperly included a journal to transfer those funds that had not occurred as of the report date.

Table 9
Federal Program Income Transferred Reported Incorrectly

FFY of Grant Award	End of Reporting Period	Line	Line Description	Department Reported	State Audit Calculations	Difference
2016	9/30/2016	12f	Federal Program Income Transferred to Independent Living Services for Older Individuals who are Blind Program	\$1,225,378	\$981,979	\$243,399

Controls Over the Reporting Process Were Inadequate

During the performance of our testwork, we noted that the controls over the reporting process were inadequate to ensure that the department properly reported accurate information related to certain lines of the submitted SF-425 reports. Specifically, the Accountant referenced line 10n, Program income expended in accordance with the addition alternative, directly from line 10l, Total Federal program income earned, without any evidence that the department verified that the program income was actually expended at the end of the reporting period. Similarly, line 10e, Federal share of expenditures, was reduced by program income received instead of by the amount of program income used to reduce the federal draw. Likewise, some misstatements were related to allowable transfers that the department intended to make to other programs, but that had not been performed at the end of the reporting period. When reports are submitted, all financial activity included in the reports should be based on underlying accounting records that demonstrate that the activity occurred during the reporting period, rather than expectations about financial activity that may occur in the future. Additionally, the department did not have procedures in place to ensure that obligations and expenditures were only included in calculations once and not double-counted due to the items being included in multiple information sources.

Finally, we noted that the department's reporting methodology related to the construction of facilities for community rehabilitation program purposes (construction projects) was not adequate. A separate agency within the state, the State Building Commission, manages these projects and bills the Department of Human Services for the federal share of the projects. While fiscal staff included the federal share of expenditures for these projects in SF-425 reports, staff did not use the related underlying obligation dates to ensure the expenditures were reported on the correct grant year's report. In addition, the reporting process did not involve reviewing the State Building Commission's records to identify and accurately report other types of financial activity related to construction projects. As a result, financial activity related to construction projects was excluded from federal and non-federal unliquidated obligations and the non-federal share of expenditures for construction projects (line 12a). We also found that, instead of using the State Building Commission's records to identify the amount of non-federal matching expenditures to report on line 10j (related to construction projects), the department simply calculated the non-federal share based on an assumption that the federal share of expenditures was matched at a 21.3% rate. Calculating non-federal expenditures based on an assumption that the state matched federal expenditures at a predefined rate (instead of basing it on a review of expenditure records)

represents a significant control deficiency, especially given the potential size of construction projects.

To determine whether the department had complied with the reporting compliance objectives, we reviewed the State Building Commission's records and determined for ourselves that the state provided the appropriate matching funds for the construction projects identified. By relying on an assumption of a predefined matching rate instead of the State Building Commission's records, the Accountant understated the non-federal expenditures related to construction projects in line 10j of the department's reports. For example, we noted that line 12a of the FFY 2015 SF-425 report submitted during our audit period was understated by \$929,668. RSA relies on information reported to determine compliance with the matching requirement and to determine the amount of federal funds allowed to be obligated in the following year (carryover year). Underreporting non-federal expenditures ultimately understates the amount of federal funds the state can obligate in the carryover year.

Inadequate Controls and Noncompliance Related to Maintenance of Effort Requirements

The department is required to spend at least as much in non-federal expenditures as it spent two years prior. For instance, the department should have expended as much in non-federal expenditures in 2016 as it did in 2014. If the department does not meet that requirement, regulations require RSA to reduce the subsequent grant award by the deficit.

Based on discussion with the Department Controller, the controls for meeting the maintenance of effort requirement are the same as the controls over SF-425 reporting. Therefore, the internal control deficiencies related to reporting noted above are also internal control deficiencies over maintenance of effort.

We found that the maintenance of effort requirement for FFY 2016 was not met, and that RSA was unable to reduce the 2017 grant by the appropriate deficit because the SF-425 report for the FFY 2016 grant award was inaccurate. Specifically, based on the procedures performed, we determined that RSA should have reduced the FFY 2017 award by a total of \$2,672,786 due to insufficient maintenance of effort expenditures. However, at the time of the audit, we could not identify evidence that demonstrated that RSA reduced the 2017 grant award due to the deficit in 2016 non-federal expenditures based on the department's submission of 2016 and 2014 SF-425 reports. This was likely due to the department not submitting a final SF-425 report for the 2014 award until the current audit period. In addition, RSA could not have reduced the 2017 award by the appropriate amount based on the 2016 and 2014 SF-425 reports fiscal staff submitted, because the 2016 SF-425 report was inaccurate, as described above. These inaccuracies would have led RSA to reduce the award by \$2,361,323, which is \$311,463 less than the required amount.

Risk Assessment

We reviewed DHS's November 2016 Financial Integrity Act Risk Assessment and determined that management addressed the risks associated with reporting inaccurate information on federal reports. However, the impact of the risk was assessed as high and the likelihood was assessed as remote, so no mitigating controls were described. Given the frequency with which we have identified reporting inaccuracies in the current audit and prior audits, we concluded that

management should have assessed the likelihood as probable (high) and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

According to Policy Directive 15-05 for line 10e. Federal Share of Expenditures,

For reports prepared on an accrual basis, grantees should report Federal fund expenditures as the sum of cash disbursements for direct charges for goods and services, the amount of indirect expenses incurred, the amount of payments made to contractors/vendors, and the increase or decrease in the amounts owed by the recipient for goods received and services performed by employees, contractors/vendors, and other payees.

According to Policy Directive 15-05 for line 10f. Federal Share of Unliquidated Obligations,

Enter the Federal portion of unliquidated obligations incurred by the grantee. Unliquidated obligations include direct and indirect expenses for goods and services incurred by the grantee, but not yet paid or charged to the VR grant award, including amounts due to contractors/vendors. When submitting a final SF-425 report, this line should be zero.

According to Policy Directive 15-05 for line 10j. Recipient Share of Expenditures,

Enter the total amount of non-Federal VR expenditures incurred for the reporting period. This amount must include the grantee's non-Federal share of actual cash disbursements or outlays (less any rebates, refunds, or other credits), including payments to contractors, the grantee's non-Federal share of unliquidated obligations (reported separately on line 12d – Remarks), and the Non-Federal Share of Expenditures for the Establishment or Construction of Facilities for Community Rehabilitation Program (CRP) Purposes as reported on line 12a.

According to Policy Directive 15-05 for line 10l. Total Federal Program Income Earned,

Enter the total amount of Federal program income (program income) earned and received by the grantee as of the end of the reporting period. Program income is considered earned in the fiscal year in which the funds are received by the grantee (34 CFR [*Code of Federal Regulations*] 361.63 and 2 CFR 200.80). Therefore, the amount reported on line 10l should not change after the grantee submits its fourth quarter SF-425 report.

According to Policy Directive 15-05 for line 10n. Program Income Expended in Accordance with the Addition Alternative,

For those grantees using the addition alternative, enter the amount of program income that was used to supplement the Federal share of the total program costs. The amount reported on line 10n represents actual disbursements (i.e., outlays of program income by the grantee). The outlay of program income funds must meet

the same standards of allowability, reasonableness and allocability (2 CFR 200.403, 200.404 and 200.405) that are applicable to Federal funds (Section 108 of the Rehabilitation Act and 34 CFR 361.63(c)(3); and 2 CFR 200.307(e)(2), 200.401, and 200.408).

According to Policy Directive 15-05 for line 11c. Period From/To for Indirect Costs,

Enter the beginning and ending effective dates for the approved indirect cost rate(s) or CAP.

According to Policy Directive 15-05 for line 11d-f. Base for Indirect Costs,

d. Base: Enter the amount of the base against which the approved indirect cost rate(s) was applied. The base includes allowable expenditures to which the approved indirect cost rate may be applied. For CAPs, enter the total amount of the CAP costs (include both non-Federal and Federal).

e. Amount Charged: Amount Charged (11b multiplied by 11d equals 11e): Data entry is not required for this field. This data element is calculated automatically.

f. Federal Share: Enter the Federal share of the amount in 11e.

According to Policy Directive 15-05 for line 12a. Non-Federal Share of Expenditures for the Establishment or Construction of Facilities for Community Rehabilitation Program Purposes,

Enter the non-Federal share of expenditures, also included in the total amount of non-Federal expenditures reported on line 10j, incurred for the establishment or construction of facilities for CRP purposes (34 CFR 361.62(b)). Only include those costs for activities that would meet the definition of “establishment of a facility for a community rehabilitation program” at 34 CFR 361.5(b)(18) and “construction of a community rehabilitation program” at 34 CFR 361.5(b)(12).

According to Policy Directive 15-05 for line 12d. *Recipient Share of Unliquidated Obligations*,

Enter that portion of unpaid obligations to be paid with non-Federal funds meeting the requirements in 34 CFR 361.60(b). This amount is also included in the amount reported on line 10j.

According to Policy Directive 15-05 for line 12f. Federal Program Income (VR SSA Payments Only) Transferred to the Independent Living Services for Older Individuals who are Blind (OIB) Program,

Enter the amount of SSA payments received by the VR program and transferred to the OIB program (Section 108 of the Rehabilitation Act and 34 CFR 361.63(c)(2))

According to Title 29, *United States Code*, 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.

Based on review of Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 303(a), the department 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.

According to question seven of RSA's "Period of Performance FAQs," dated March 31, 2017,

All expenditures incurred against an obligation must be tracked and reported by the States in terms of when the obligation was incurred, not when the liquidation occurs. For example, if a State enters into a contract in FFY 2016 for the provision of services under the VR program, thereby constituting an obligation for purposes of 34 CFR 76.707 for FFY 2016, but many of the invoices submitted by the contractor for payment will be submitted to the State agency during FFY 2017, the State VR agency must report those expenditures (i.e., liquidation of the obligations) on its SF-425s for FFY 2016, not FFY 2017 when the payments were made.

According to 2 CFR 200.403,

Except where otherwise authorized by statute, costs 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.

Defining reasonable costs, 2 CFR 200.404 states,

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Cause

The Vocational Rehabilitation reporting requirements are complex and differ from requirements for other federal programs, and the state has historically not prepared the reports properly. In the 2015 single audit, we noted that the department entered into a Corrective Action Plan with RSA in part to resolve the serious reporting deficiencies and noncompliance. During the prior audit, we were unable to test any reports, because RSA and DHS mutually agreed that DHS would not submit SF-425 reports until the Corrective Action Plan was fully implemented. It appears that at least some of the issues noted were the result of the department's eagerness to fully report transactions, which resulted in reporting transactions that occurred after the reporting cutoff date

and inadvertently reporting duplicate transactions when the same transactions appeared in different information sources. Other issues were the result of misunderstanding the complex reporting requirements. The 2016 report that we tested was the first report that the department submitted for the Corrective Action Plan, and we noted significant improvement between that report and later reports.

Effect

In 2015, the Rehabilitation Services Administration identified the department's Vocational Rehabilitation program as high risk, for reasons including deficiencies in reporting and financial management. RSA also prescribed special conditions to the department's Vocational Rehabilitation program, including temporarily halting funding and requiring the state to complete a Corrective Action Plan with RSA. In addition to the risk of further funding disruptions, without accurate financial reporting, neither the state nor the federal awarding agency can make appropriate programmatic decisions based on the contents of reports.

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, 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 Controller should ensure that the Fiscal Director and Accountant are adequately trained with respect to reporting requirements for Vocational Rehabilitation, including RSA's instructions for report preparation, Vocational Rehabilitation regulations, uniform administrative guidance, and the terms and conditions of the grant award. The Department Controller should ensure that the internal controls for reporting for Vocational Rehabilitation are revised to provide for complete, accurate report submissions. This should include requiring fiscal staff to review records, including billing records related to program income and records related to construction projects, to ensure that all relevant financial activity is included in reports and has actually occurred. If there is no evidence demonstrating the transaction occurred during the reporting period, the transaction should not be included in a report.

The Department Controller 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.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

Management concurs that controls over the general reporting process need to be strengthened, and is in the process of making the revisions needed to result in what it believes will be complete and accurate report submissions. Management also concurs that portions of the SF-425 reports reviewed by the auditors were incomplete or inaccurate, but does not entirely agree with the auditors premise and the resultant dollars amounts detailed in items (A) through (F) of the finding. For example,

- Management agrees that errors were made in the calculation of and reporting of indirect costs, and will be refining the methodology used for reporting indirect costs for the report date ending September 30, 2018.

- Management agrees that journal entries should be made in a timelier manner so that they are posted by the time a report is filed and will be implementing controls to ensure this happens. It is important to note that the journals underlying the auditor-noted problem were in fact reclassifying expenditures and revenues that occurred prior to the report end date (September 30th or March 31st).
- Management also agrees that it needs to work more closely with its partnering state agencies to ensure that the appropriate information is obtained for capital projects and that obligations are made to the correct year.
- Management will add a calculation to the reporting template to formally indicate its consideration of the MOE requirement. The SF-425 is the mechanism in which management provides MOE information to RSA; therefore, a separate notification mechanism is not required. Additionally, Title 34 of the *Code of Federal Regulations* (CFR), Part 361, Section 62 (a), clearly states that the Secretary of Education is responsible for reducing the amount of the federal award. The department does not have any responsibility or authority in this regard.
- In relation to the duplicate billing and resulting questioned costs of \$20,907, a journal entry was made in June 2017 to correct the duplicate billing. Therefore, the final SF-425 report for federal fiscal year 16 and the accounting records have been corrected.
- Management does not entirely agree with the premise and amounts included in items (A) through (F) pertaining to obligations and program income as detailed below.

Obligations

A significant amount of the dollars identified as incorrectly included in the report as obligations stemmed from multiyear contracts. The department enters into multiyear contracts in accordance with Central Procurement Office (CPO) standards for the state in order to realize discounts for goods and services. The contract summary sheets on these contracts clearly identify to which state year (and federal year indirectly) these costs will be obligated. Title 34 of the *Code of Federal Regulations* (CFR), Part 76, Section 707(c) states that an obligation is made “on the date on which the State or subgrantee makes a binding written commitment to obtain the services.” The auditor’s interpretation of this criteria is that the entire multiyear contract (5 years and longer in this case), should be obligated to the award year in which the contract was signed, which is problematic. The regulation is silent on whether the terms of the contract or the supporting documentation can stipulate to which year the obligation will be assigned. Additionally, the grant award only has a two-year period of performance and that is only if certain conditions are met to extend the initial one-year period of performance. Contract costs incurred after year 2 would then have to be charged to state dollars. Lastly, the auditor’s interpretation does not appear to consider the provisions of 2 CFR 200 which requires a state to follow the same policies and procedures it uses for procurements from its non-federal funds. Management contacted the Central Procurement Office within the Department of General Services to gain clarity on those policies and procedures as they pertain to multiyear contracts. Correspondence from CPO stated, “As general best

practices and procedures of CPO, agencies have purview to allocate and obligate their funding for a contract, even if it is a multi-year contract. It would be unduly burdensome and impractical to expect agencies at the time of the effective date to know how much of the funding they need for year five of a project and also to be unable to change distribution of funds from year to year.” It should be noted that the department budgets out and obligates the entire 5-year contract for each year and obligates those funds accordingly.

Program Income

Program income variances noted by the auditor appear to be due to a misunderstanding of the system controls in place. Many of the discrepancies noted are instances in which program income was received during the reporting periods, but the cash was not settled until after the reporting period. For example, \$100 was received on September 30, 2016; however, the cash impact was not settled until October 2, 2016. These are two separate considerations. One pertains to reporting and one pertains to cash management. See finding 2017-028 for management’s response to cash management. When program income is received, the general ledger (Edison) automatically applies the income to expenses already incurred. In the event that enough expenses have not been incurred to cover the income received, a payable to the federal government is also recorded. Therefore, reporting program income as expended when received is an accurate reflection of the events that occurred, regardless of whether the cash is settled at a later date.

Risk Assessment

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). For the Department’s November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor’s Comment

Obligations

While we recognize the challenges in adhering to the stipulations in 34 CFR 76.707(c), we are required to audit based on the regulations as written. If management wishes to apply numerous obligation dates to one contract, the department should obtain written federal approval of the approach. Additionally, there is no indication that the procurement requirements in 2 CFR 200.317 supersede Vocational Rehabilitation’s period of performance requirements.

Program Income

In February 2018, subsequent to our audit fieldwork, we met with fiscal management to discuss the automated process to record and track the receipt and use of program income. After fiscal management provided a description of the automatic accounting entries, as well as, additional supporting documentation, we were able to confirm that most program income was expended by the end of the respective reporting periods. We, however, were unable to verify that all program income was expended as reported, because the automatic process for expending program income

had not occurred for all program income receipts. Because the process appears to incur some delays, we could not conclude that program income was always expended as soon as received, as described by management.

Finding Number	2017-030
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, G1602TNTANF, and G1702TNTANF
Federal Award Year	2012 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-043
Pass-Through Entity	N/A
Questioned Costs	\$631

As noted in the prior audit, the Department of Human Services did not promptly discontinue TANF benefits when the period of eligibility expired, resulting in known questioned costs of \$631

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 their own program. According to the HHS website, the four purposes of the TANF program are the following:

- Provide assistance to needy families so that children can be cared for in their own homes or in the homes of relatives.
- End 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. Assistance units may not receive TANF benefits for more than 60 months in a lifetime without good cause or an exemption. Applicants must meet necessary work requirements where applicable. DHS caseworkers document the eligibility of new applicants and continuing clients in the department's Automated Client Certification Eligibility Network for Tennessee system.

Department management concurred with the prior-year finding, and to ensure ineligible children are removed once they reach the age of 18 (or 19 if they have not yet completed secondary education and will do so before their 19th birthday), management stated “weekly individual alerts will be utilized for quality control reviews through ACCENT.” Even though management took action to address the age requirement issues noted in the prior audit, and we did not note those issues again in the current audit, we still found other instances of eligibility noncompliance that we are required to report.

Condition

We selected a nonstatistical, random sample of 60 TANF recipients that received TANF benefits during fiscal year ended June 30, 2017, to determine if the recipients were eligible for benefits. Based on our review, we found that for 3 of 60 recipients tested (5%), DHS staff did not promptly discontinue benefits when the period of eligibility expired. Specific details for the three errors are as follows.

Lack of established control to ensure caseworkers took prompt action when known eligibility changes were required resulted in overpayment of benefits

In the following two errors, we determined that the department had not established sufficient controls to ensure caseworkers performed their job responsibilities to make necessary changes in recipients’ eligibility, resulting in the overpayment of TANF benefits.

- The DHS caseworker did not promptly remove a recipient and the recipient’s sibling from the case upon learning the children no longer lived with their grandmother, the caretaker of the case. Even though the department’s process accurately and timely identified that the children were no longer eligible to receive benefits as part of their grandmother’s case and even though the required eligibility changes were documented in the recipient’s case file, the caseworker failed to remove the children from their grandmother’s case until late December 2016, which resulted in DHS overpaying the grandmother a total of \$184 in TANF benefits for December 2016 and January 2017.
- The DHS caseworker did not promptly close the case when the recipient stated she did not want to comply with the assigned work activity and no longer wanted to participate in the program. Even though the department’s process accurately and timely identified the eligibility changes that the caseworker needed to make to the case and the required changes were noted in the case notes, the caseworker did not close the case timely, which resulted in DHS overpaying the recipient \$305 in benefits for October 2016.

Overpayment due to unique circumstances

- The DHS caseworker did not promptly close the case when the recipient’s case reached the 60-month limit, even though the caseworker was aware that the recipient had reached the 60-month limit and was not eligible for an exemption to increase the time limit. In this case, the circumstances were unique and not merely that the caseworker failed to take immediate action to prevent overpayments. The client (who had completed 58 months of TANF eligibility/benefits and still had two months of TANF eligibility available) reapplied for TANF to get the 2 months of available benefits.

Upon approval, the client was eligible to receive the final (60th) month of benefits. Based on the department's process, the date of approval for the last month of benefits was also the day the client became ineligible for future benefits. Given the design of the department's review process to identify recipient cases that are approaching 60 months, the department's process would not have flagged this particular case because the case was not active at the end of the prior month, when the department would have flagged it as an active case that needed to be closed. As a result, DHS overpaid the recipient \$142 in benefits for December 2016. Given that this error was not the result of a caseworker failing to address necessary changes identified by the department's established review processes, we did not consider this error part of the caseworker control breakdown.

Risk Assessment

We reviewed the DHS November 2016 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 a specific control to mitigate this risk that caseworkers would fail to take prompt action to terminate TANF benefits, thus resulting in TANF benefit overpayments.

Criteria

According to Title 42, *United States Code* (USC), Section 608(a)(10)(C),

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 for an individual who is a parent (or other caretaker relative) of a minor child and who fails to notify the agency administering the State program funded under this part of the absence of the minor child from the home for the period specified in or provided for pursuant to subparagraph (A), by the end of the 5-day period that begins with the date that it becomes clear to the parent (or relative) that the minor child will be absent for such period so specified or provided for.

According to Title 42, USC, Section 607(e)(1),

If an individual in a family receiving assistance under the State program funded under this part or any other State program funded with qualified State expenditures . . . refuses to engage in work required in accordance with this section, the State shall— (A) reduce the amount of assistance otherwise payable to the family pro rata (or more, at the option of the State) with respect to any period during a month in which the individual so refuses; or (B) terminate such assistance, subject to such good cause and other exceptions as the State may establish.

According to Title 45, *Code of Federal Regulations* (CFR), Section 264.1(a)(1),

Subject to the exceptions in this section, no State may use any of its Federal TANF funds to provide assistance (as defined in § 260.31 of this chapter) to a family that includes an adult head-of-household or a spouse of the head-of-household who has

received Federal assistance for a total of five years (i.e., 60 cumulative months, whether or not consecutive).

Cause

Management stated each of these errors was the result of human error and they have monitoring procedures in place to minimize these occurrences. Based on review of the cases, we agree the errors were the result of human error on the caseworkers' part, but we also found that the department did not have sufficient controls in place to ensure caseworkers follow through when the eligibility process identifies required changes in recipient eligibility.

Additionally, management stated a system modification was implemented in February 2017 that automatically closes cases without a valid exemption or extension in order to prevent individuals from receiving more than 60 months of benefits. We did not note any errors or questioned costs related to violation of the 60-month time limit after February 2017.

Effect

When department staff do not follow federal requirements to ensure the eligibility of TANF recipients, the department charges the federal grantor for ineligible individuals. 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, 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.

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 760,211 individual recipient records for the period July 1, 2016, through June 30, 2017, which represented a total sample of \$12,830 and a total population of \$42,786,087 in federal benefits paid. Since the department did not discontinue benefits when three recipients' eligibility expired, we questioned \$631 overpaid on behalf of the recipients (\$142 from the sampled month and \$489 to include all other overpayments on behalf of the recipients during the fiscal year). 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.

Recommendation

The Assistant Commissioner of Family Assistance should establish sufficient controls to ensure caseworkers follow federal requirements and review all cases and take appropriate action when the period of eligibility expires and continue to review the system control implemented in February 2017 to ensure any TANF overpayments due to exceeding program time limits are avoided. Management should also include in its annual risk assessment the mitigating controls associated with staff not discontinuing benefits when the period of eligibility expires.

Management's Comment

We concur. The finding states that the Tennessee Department of Human Services did not promptly discontinue TANF benefits when eligibility expired. As a result, the questioned costs total \$631.

As mentioned, controls are currently in place to monitor eligibility and to take appropriate action when deemed necessary. The Department implemented a system modification in February 2017 to automate TANF case closures when the lifetime limit is reached and a valid exemption and/or extension is not present. This technological enhancement has, to date, proven to be effective in preventing individuals from receiving more than 60 months of benefits. Additional controls have been implemented, including, but not limited to, the following:

- State office review of a sample of cases reaching the lifetime limit to ensure appropriate action is taken in a timely manner.

- Field management monthly case review and staff discussion regarding the review findings.
- Performance improvement plans issued, when appropriate, to staff who fail to follow through on the eligibility process.
- Release of policy refresher trainings.
- Distribution of monthly questions and answers (Q&As) to staff as related to TANF policies.
- Creation and dissemination of policy/procedural informational.

The Department continues to strengthen procedures to more closely monitor eligibility. We continually assess, analyze, and study outcomes to ameliorate outcomes. The Department shall also continue to review the effectiveness of implemented controls. The review will be used to impact processes designed to avoid any TANF overpayments.

Finding Number	2017-031
CFDA Number	93.563
Program Name	Child Support Enforcement
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Federal Award	1704TNCSES
Identification Number	
Federal Award Year	2017
Finding Type	Significant Deficiency
	Noncompliance – Allowable Costs/Cost Principles
Compliance Requirement	Allowable Costs/Cost Principles
	Program Income
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$44,321

Child Support Enforcement program and fiscal staff did not ensure that program income from vendor rebates was received, recorded, and used to reduce federal draws, resulting in questioned costs of \$44,321

Background

The Tennessee Department of Human Services (DHS) is the authorized agency responsible for administering and enforcing the Tennessee Child Support Program under Title IV-D of the Social Security Act of 1974. The objectives of the Child Support Enforcement (CSE) program are to enforce the support obligations that absent parents owe to their children; to locate absent parents; to establish paternity; and to obtain spousal and medical support. The CSE program is operated from state and local offices, and the administrative and enforcement operations are funded by the U.S. Department of Health and Human Services' Administration for Children and Families. On April 11, 2016, the Tennessee Department of Finance and Administration (F&A) assumed responsibility for DHS' fiscal functions through centralized accounting, including submitting financial reports to federal grantors. Therefore, the fiscal staff and fiscal management referenced in this finding are F&A employees. DHS bears ultimate responsibility for administering the grant with assistance from F&A.

DHS' Child Support Disbursement unit collects child support obligations owed by the noncustodial parent and disburses the funds to the custodial parent. The CSE program offers custodial parents the option of receiving collections directly via a debit card instead of by direct deposit or physical check. During the audit period, the CSE program provided these debit cards through a contract, effective July 1, 2016, between F&A and a third-party vendor that issues debit cards similar to a bank. A provision in both the previous contract, which ended during fiscal year 2016, and the current contract requires the vendor to make monthly rebate payments of 10 cents per active debit card to each state department it serves (DHS included). The contract also requires DHS to provide a monthly list of active accounts to the vendor.

The rebate payments are considered program income for the CSE program. Program income is also derived from income generated through various fees, short-term interest on collections, and unclaimed collections that cannot be attributed to a custodial parent.

Title 45, *Code of Federal Regulations* (CFR), Part 304, Section 50 requires the non-federal entity to reduce costs charged to the CSE program by the respective amount of program income. In order to properly reduce costs, DHS must consider the CSE program's funding. The program's operations are funded by 66% federal funds and 34% state funds. Therefore, if the program incurred \$1,000 in allowable administrative costs, for example, the CSE administrators could request a \$660 reimbursement or apply \$660 in funds already drawn from the federal funding agency. If the CSE program received \$100 in rebate funds from the debit card vendor during the award period, it would be required to reduce the amount of funds obtained from the federal agency by \$66.

CSE program expenditures and revenues are recorded on a cash basis. Therefore, expenditures are not recorded until a payment for goods or services is made, and revenues (including program income) are not recorded until received.

Condition

During our testwork, we determined that CSE program and fiscal staff did not establish controls over program income, which ultimately resulted in a lack of compliance with federal regulations. CSE program and fiscal staff failed to request rebates from the new debit card vendor, although the contract contained provisions for rebates. As a result of our audit inquiries in August 2017, management determined that they had not requested rebate income provided for in the contract. CSE fiscal staff also contacted the vendor and determined that the vendor began issuing rebate payment checks in April 2017 for the amount owed to DHS, but the vendor had erroneously send them to the Department of Labor and Workforce Development (LWD) instead of DHS. Since DHS did not provide monthly lists of active accounts to the vendor, the vendor used its own internal data to proactively make \$67,153 in rebate payments for July 2016 through February 2017. These payments were sent to and deposited by LWD instead of DHS during fiscal year 2017, but the payments should have been received, recorded, and used by DHS to reduce CSE federal expenditures. The vendor had not yet issued the remaining rebate amounts for March through June 2017 as of the end of the fiscal year. Based on the department's monthly list of active accounts, we calculated that the vendor owed DHS \$108,508 for fiscal year 2017.

Since the CSE program is on a cash basis, we based the resulting questioned costs only on the actual amount DHS should have received during the audit period, but was erroneously sent to and deposited by LWD. Federal expenditures should have been reduced by the federal percentage of the payments made by the vendor for a total of \$44,321 (or 66% of \$67,153); therefore, the costs charged to the federal award in that amount will be questioned as unallowable costs.

Corrective Actions

The CSE fiscal unit has taken some corrective actions to address this issue since we brought it to management's attention. In September 2017, the unit prepared an interunit journal entry for \$67,153 to transfer the rebate payments LWD received to the CSE program. The unit also reduced

federal draws by \$44,582 by reporting a prior quarter adjustment on a September 30, 2017, federal report.

Also in September 2017, the CSE Information Technology (IT) unit began regularly running monthly lists of active accounts that DHS currently submits to the vendor for accurate rebate amounts.

Risk Assessment

We reviewed DHS' November 2016 Financial Integrity Act Risk Assessment and determined that management did not address the risks associated with not receiving, recording, and reducing federal expenditures associated with program income in its annual risk assessment.

Criteria

Management is responsible for implementing internal control systems to ensure accurate documentation of operations and to protect the agencies from risks of error, whether unintentional or malicious in nature. Management's responsibility for those controls are stated in the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*. Specifically, Principle 10.02, "Design Control Activities," states,

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives.

Additionally, Principle 16.05 states,

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.

45 CFR 304.50 states that "The IV-D agency must exclude from its quarterly expenditure claims an amount equal to . . . [a]ll interest and other income earned during the quarter resulting from services provided under the IV-D State plan."

2 CFR 200.402 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 200.406(a) states that "Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs." Section 200.307(e)(1) states that "Program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did

not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project.”

Cause

During the transition from the previous debit card contract with a different vendor to the current contract, key personnel changes occurred both in finance and program areas of CSE. DHS did not have control procedures in place to identify the earned rebates, and its reviews of the quarterly report, where the rebate income dropped off from the previous quarterly report, were inadequate during this period of personnel changes.

Specifically, one former Fiscal Officer transferred to the Director of Operations-Child Support Services position during this transitional period. While in the fiscal unit, he was involved with procuring the new debit card contract and was aware of the rebate provision. During his transition to the new position, however, the Director of Operations failed to notify other fiscal staff of the rebate, did not assign an employee to monitor the contract, and did not request IT staff to continue running active debit card counts as they had for the previous vendor. Fiscal staff did not monitor the new contract and did not inquire about the lack of rebates while preparing reports involving program income.

Not identifying program income and not monitoring the contract allowed this issue to go undetected. Specifically, based on his review of the quarterly expenditure report for the period ended September 30, 2016, the Director of Operations should have determined that the program income associated specifically with the debit card rebate was no longer listed on the report, which should have prompted him to investigate the issue.

Effect

In addition to the noncompliance with the federal regulations, DHS overspent federal funds because it did not net federal expenditures by the program income earned.

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 \$44,321 in federal funds due to DHS' failure to reduce costs by the amount of program income received as of June 30, 2017. 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 200.84 defines questioned costs as costs that the auditor questions because of an audit finding that 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; because the costs are not supported by adequate documentation at the time of the audit; or because the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Recommendation

The Director of Operations-Child Support Services and the Fiscal Director of Child Support Enforcement should develop and implement controls over the CSE program income to ensure compliance with federal regulations. Specifically, all program income should be identified, deposited, recorded, and proportional amounts used to reduce CSE federal expenditures. CSE officials should continue to share DHS' active debit card list with the vendor to ensure accurate rebate payments.

CSE management should consider including program income on budgets to assist management in expected program income and deviations. CSE management should also consider having DHS' Internal Audit unit perform a review of program income.

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 and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur.

The Department concurs that internal controls to monitor the remittance of debit card rebate payments were not established in a timely manner. While we do not concur that the severity of the lack of internal controls in this area warrants a finding as the program income noted in the finding represents 3% of total program income received during the year and .16% of total federal expenditures for child support during state fiscal year 2017, we acknowledge our responsibility to establish sound internal control processes within the Department. After being notified of the deficiency, the Department took corrective action to recover the funds from the Department of Labor and report those funds as program income on the applicable quarter's federal report. In addition to the corrective actions mentioned in the finding, ongoing internal control processes were established to communicate with the vendor monthly to inquire about the status of the previous month's rebate check.

The Department disagrees with the assertion that the lack of receipt of the program income during the audit period resulted in noncompliance or questioned costs. As stated in the finding, "CSE program expenditures and revenues are recorded on a cash basis. Therefore, expenditures are not recorded until a payment for goods or services is made, and revenues (including program income) are not recorded until received." As also stated in the finding, the funds were not received from the Department of Labor until September 2017, at which time they were recognized as revenue and the corresponding offset to federal expenditures occurred, which is in accordance with federal regulations.

Auditor's Comment

This finding is based on the lack of adequate internal controls, and the questioned costs may have been avoided if adequate controls were in place. As described in the finding above, we questioned the costs because the state (in this case the Department of Labor and Workforce Development) technically received the CSE program income during fiscal year 2017. As such, federal regulations require that program income be excluded from expenditure claims. In this case, the department's CSE program staff were not tracking the program income and were unaware that another department had deposited funds meant for the CSE program.

Finding Number	2017-032
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	G1502TNTANF, G1602TNTANF, G1702TNTANF, 1504TNCSES, 1604TNCSES, 1704TNCSES, 1704TNCEST, G1501TNCCDF, G1601TNCCDF, and G1701TNCCDF
Federal Award Year	2015 through 2017
Finding Type	Significant Deficiency (93.558) Material Weakness (93.575 and 93.596) Noncompliance
Compliance Requirement	Reporting
Repeat Finding	2016-045
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, fiscal staff for the Department of Human Services still submitted SF-425 Federal Financial Reports that were inaccurate, unsupported, and not adequately reviewed by the Fiscal Director

Background

The U.S. Department of Health and Human Services (HHS) requires the Tennessee Department of Human Services (department or DHS) to file a Federal Financial Report, the SF-425 report, to report federal cash transactions for certain federal grants received from HHS. The Department of Finance and Administration's (F&A) Division of Accounts assists the Department of Human Services by performing federal reporting responsibilities, including submitting the SF-425 report to HHS. 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 the department 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 the department 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.

F&A submits the quarterly reports online through the HHS Payment Management System. HHS requires DHS to submit the reports 30 days after each quarter ends and requires staff to report cash receipts and disbursements on a cash basis, rather than the accrual basis.

During our audit period, July 1, 2016, through June 30, 2017, once the Accountant prepared each report, the Fiscal Director reviewed and approved the report.

During the prior audit, we noted that the Accountant overstated cash receipts and cash on hand on the SF-425 reports, used the prior quarter's expenditures to calculate cash disbursements for the current quarter, and reported accrual basis expenditures rather than cash disbursements on the SF-425 reports. We also noted that the Fiscal Director did not perform review procedures for cash receipts and cash on hand on the SF-425 reports to ensure the reported amounts were accurate.

Management concurred with the prior audit finding and stated that the overstatement of cash receipts and cash on hand in fiscal year 2016 resulted from an underreporting of expenditures in fiscal year 2013. Management also indicated in their prior audit comments that staff had performed an analysis of expenditures reported in fiscal year 2013 and made corrections to the SF-425 report for the quarter ended December 31, 2016. Management also stated that "The reporting process has been revised. Reports are completed based on general ledger information for the appropriate reporting quarter" and "The current quarter's change in cash receipts will be verified going forward."

Conditions and Criteria

During the current audit, we found that management had made corrections to the cash receipts and cash on hand reported on the SF-425 report for the quarter ended December 31, 2016. We also found that management had changed the SF-425 reporting process and, effective for the quarter ended December 31, 2016, the Accountant prepared the SF-425 reports using the current quarter's expenditures to calculate the cash disbursements for the current quarter. However, the Accountant did not correct the SF-425 report for the quarter ended September 30, 2016, where the cash disbursements were still reported based on the prior quarter's rather than the current quarter's expenditures. We also found that the Accountant still reported accrual basis expenditures rather than cash disbursements on the SF-425 reports. In addition, we found that the Fiscal Director still did not perform review procedures for cash receipts and cash on hand on the SF-425 reports to ensure the accuracy of the reported amounts.

Condition A. Accrual basis expenditures were used to report cash basis disbursements

We found that for all four quarterly reports submitted for the audit period July 1, 2016, through June 30, 2017, the Accountant 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.

Based on our audit procedures and discussion with fiscal staff, fiscal staff determine the amount of cash disbursements to report on the SF-425A and SF-425 reports using expenditure data from Edison, the state's accounting system, which is recorded on an accrual basis.

Because fiscal staff record Edison expenditures on an accrual basis, they cannot use Edison expenditure records alone to determine the amount that should be reported as cash disbursements on the SF-425 reports. Instead, 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 DHS' Controller stated that the timing differences between cash basis and accrual basis expenditures may have been insignificant, he was not able to provide sufficient evidence to demonstrate that the reports were not materially misstated. The Controller provided an analysis to demonstrate the timing difference between cash basis and accrual basis expenditures; however, the analysis was based on the assumption that cash was disbursed on the same date that expenditures were recorded in the accounting records.

Based on discussion with DHS' Controller, the accounting system had sufficient records to determine the correct amount of cash disbursements, but aggregating the data would be very time consuming; therefore, fiscal staff had not attempted to capture and report the accurate amount of cash disbursements based on the accounting records. 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 fiscal staff provided no evidence demonstrating what effect using the incorrect accounting basis would 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.

Condition B. Fiscal staff did not report the correct quarters' expenditures for one quarter

Although fiscal staff reported the correct quarter's expenditure information for the last three quarters of the audit period, we noted that the Accountant used the prior quarter's expenditures to calculate the cash disbursements for the report submitted for the quarter ended September 30, 2016, thereby creating a three-month timing difference in the financial information reported to HHS. According to the report's 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, prior to the December 31, 2016, SF-425 report, 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.

Table 1 illustrates the effect of using the prior quarter's expenditures to calculate the cash disbursements for the quarter ended September 30, 2016, for the Child Care and Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) grant awards.

Table 1
Impact of Using Prior Quarter Expenditures for the Quarter Ended September 30, 2016

	Quarter Ended June 30, 2016	Quarter Ended September 30, 2016	Difference
CCDF 2016 Grant Award Federal Share of Expenditures	\$56,361,765	\$71,228,818	\$14,867,053
TANF 2016 Grant Award Federal Share of Expenditures	\$22,062,932	\$24,909,437	\$2,846,505

Source: ACF-696, Child Care and Development Fund Financial Report, and ACF-196R, Temporary Assistance for Needy Families Financial Report, for reporting quarters ended June 30, 2016, and September 30, 2016.

To calculate the cash disbursements in accordance with the report's instructions, the Accountant should have used September 30, 2016, cash disbursements, not expenditures from the prior quarter's reports. Fiscal staff began using the correct quarter's information beginning with the SF-425 report for December 31, 2016. Even though staff corrected the problem in the reports submitted for subsequent quarters, we included this matter in this finding because the September 30, 2016, report submitted was materially misstated, and federal regulations require us to report such noncompliance.

Condition C. The Fiscal Director did not adequately review the SF-425 reports

We discussed the review and approval process with the Fiscal Director and observed him re-perform his review of the June 30, 2017, SF-425 report. Based on our discussion and observation, the Fiscal Director reviewed cash disbursements, line 10(b), by tracing the amount reported to accounting records in Edison. However, the Fiscal Director 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 to make sure the amount reported as cash on hand was mathematically correct (10a-10b=10c). The Fiscal Director's review procedures also did not address the Accountant's use of prior-quarter information for reporting current-quarter expenditures.

During the prior audit, we noted that the Accountant overreported cash receipts and cash on hand on all SF-425 reports submitted during the prior audit period—with variances of over \$100 million on each report—and the Fiscal Director approved all the reports without reviewing cash receipts and cash on hand to verify the accuracy of the amounts reported. As a result, we concluded that F&A's report review procedures were inadequate, because the review should have included procedures for verifying the accuracy of cash receipts and cash on hand.

Title 2, *Code of Federal Regulations*, Part 200, Section 303, requires a non-federal entity to establish and maintain effective 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 award.

Because HHS requires the department to report cash receipts, cash disbursements, and cash on hand on the SF-425 report, F&A needs a review procedure to verify the accuracy of all three amounts reported on the SF-425 report; a review procedure for cash disbursements alone is not sufficient to ensure the accuracy of the SF-425 report.

Condition D. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed DHS' November 2016 Financial Integrity Act Risk Assessment. We determined that management did not document the mitigating controls associated with ensuring that reports are submitted accurately and that reports agree with accounting records in the department's annual risk assessment. Management documented in the annual risk assessment that there was a high impact and a remote (low) likelihood that all required federal reports are not submitted accurately and timely. Given the frequency with which we identified inaccuracies in federal reports, we concluded that management should have assessed the likelihood as probable (high) and included a control activity to mitigate the risk in the department's annual risk assessment.

Cause

Regarding using the prior quarter's information to report the current quarter's cash disbursements, based on discussion with the former Accountant who prepared 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 report 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 reports were not due until 45 days after the end of the quarter. Because of this timing issue, the underlying programs' financial reports were generally not prepared and therefore were unavailable when the former Accountant prepared the SF-425 reports, so the former Accountant used the prior quarter's financial reports to prepare the current quarter's SF-425 report. Based on discussion with DHS' Controller, 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 DHS.

Regarding the inadequate review of the SF-425 reports, based on discussion with the Controller and the Fiscal Director, cash receipts were pre-populated by the Payment Management System, and management was not aware of any financial data in Edison that would allow fiscal staff to reconcile cash receipts and cash on hand; therefore, fiscal staff had been relying on the information provided by the Payment Management System and did not have review procedures for cash receipts and cash on hand.

Effect

When F&A's fiscal staff fail to report accurate federal cash status on the SF-425 report, neither F&A, nor the Department of Human Services, 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 the department's financial status with respect to the programs included on the SF-425 reports, fiscal staff must ensure that the information included in SF-425 reports is accurate, supported, and adequately reviewed.

Recommendation

The Commissioner of the Department of Human Services and the Controller should ensure that fiscal staff prepare the SF-425 reports in accordance with the report's instructions. The Controller 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 Controller should establish review procedures to ensure that cash receipts and cash on hand reported on the SF-425 reports are accurate.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We do not concur.

During the audit period, management made corrections to reported cash disbursements (line 10b) based on general ledger data for the applicable quarter. Since the prior year issue was communicated around the time of submission of the September 30, 2016, report, corrections were made to the December 31, 2016, report. The report is a cumulative report; therefore, it would not have been a good use of state resources and federal funds to revise a prior report when the December 31, 2016 report corrected the issue of using prior quarter data on current quarter reports noted by the auditor.

The cash receipts line (line 10a) in the report is auto-populated by the federal system, and the cash on hand line (line 10c) is merely the difference between lines 10a and 10b (and thus automatically calculated by the system). Because of the line 10a auto-population approach taken by the federal government in the development of this report, management has utilized the federal draw process and related internal controls to ensure that amounts drawn from and available in the federal systems are correct. This daily control monitors cash receipts in relation to the federal awards, as well as the available balances in the federal systems, and is the information on which management bases decisions. Additionally, federal expenditure reports are required for the Child Care Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) Program. Final reports for expenditures are reconciled to cash activity to ensure that funds drawn for each federal program agree to federal expenditures incurred.

Cash on hand (line 10c) is reviewed for reasonableness when the report is completed, and management believes the above described alternate approach to ensuring the accuracy of federal receipts is more efficient and cost-effective than attempting to reconcile the prepopulated line 10b amounts on a routine basis, but management will begin exploring options for completing a full reconciliation on a periodic basis.

The basis used by management, which is not full accrual, to report disbursements on the federal report is as close as administratively feasible to actual cash disbursements. Management provided the auditors with an analysis of the potential impact of system timing differences to the amounts reported on the federal report. An immaterial variance was identified by the analysis. The analysis included all of the support necessary for the auditors to trace to supporting payments to determine the date difference between the expenditure posting date (date used for reporting purposes) and the payment date.

Auditor's Comment

Fiscal staff, who prepared and reviewed the reports, did not perform procedures to verify the accuracy of the amount of cash receipts prepopulated in line 10a, such as comparing the prepopulated amount to the accounting records. The Payment Management System automatically calculates the amount of cash receipts in line 10a as the sum of ending cash on hand (cash receipts minus disbursements) from the prior quarter's report and the funds received and/or returned during the quarter. Because line 10a is affected by disbursements reported in prior quarters, the department cannot rely on the internal controls of the federal draw process alone to ensure the accuracy of line 10a.

Also, we were provided no evidence as to how fiscal staff reviewed line 10c, cash on hand, for reasonableness. The report reviewer stated that he simply reviewed line 10c to ensure it was mathematically accurate.

Finding Number	2017-033
CFDA Number	93.575
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	G1601TNCCDF and G1701TNCCDF
Federal Award Year	2016 and 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	G1601TNCCDF	\$3,821,893
93.575	G1701TNCCDF	\$3,268,896

The Department of Human Services improperly spent federal funding from the Child Care and Development Fund on the Read to be Ready Summer Camp Program, which is not a child care quality activity as defined in the relevant federal regulations, resulting in federal questioned costs of \$7,090,789

We participated in a conference call with the federal partners and DHS on March 15, 2018. During this call, the federal partners clarified that some literacy camp activities could be allowable as quality activities and other activities would only be allowable as child care activities if all other program requirements, including those related to eligibility, were met. As noted in the finding, DHS did not provide any evidence to suggest that children's eligibility was evaluated based on the CCDF eligibility requirements. Specifically, no eligibility documentation or any other evidence was provided to suggest eligibility determinations were performed, and the department would not provide the name of any individual who might have this eligibility documentation. We were unable to determine what portion of funds spent were related to child care activities and what portion was related to quality activities, so we questioned the full amount spent.

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.

In order to be considered a child care quality activity, the expenditure must fall into one of several categories described in Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 53. These categories include training and professional development of child care workers, providing

technical assistance to eligible child care providers, improving the supply and quality of child care programs and services for infants and toddlers, and carrying out other activities to improve the quality of child care services provided.

For expenditures for child care services to be allowable, the services must be provided to eligible children. To be eligible, a child must

- reside with a family whose income and assets do not exceed certain thresholds,
- reside with a parent or parents who are working or attending a job training or educational program (or the child must receive or need to receive protective services), and
- meet certain age requirements.

Condition

In evaluating expenditures charged to the CCDF program, we noticed expenditures charged to CCDF for the summer 2017 Read to be Ready Summer Camp Program, which provides literacy camps for economically disadvantaged students entering first, second, or third grades using subawards, primarily to local school systems. We determined that DHS used \$7,090,789 in CCDF funds for the Read to be Ready Summer Camp Program through an interagency agreement with the Tennessee Department of Education, which administers the program using CCDF funds provided by DHS. Based on discussion with management, management considers the Read to be Ready Summer Camp Program an allowable use of CCDF funds because management considers the program a quality activity per CCDF regulations. Based on discussion with management, however, management had not established a documented process for consulting general counsel to determine whether new, significant contracts and interagency agreements obligating federal funds met all grant requirements for allowability prior to entering into the agreement.

We reviewed the agreement for the summer 2017 program and concluded that \$9,967,450 of the \$10 million in services described did not represent any of the quality activities described in 45 CFR 98.53(a)³¹. The 10 types of quality activities described are all intended to improve the quality of child care services for all children. Per the agreement, “The goal of these camps is to develop students’ love of reading and writing and to prevent summer learning loss for some of Tennessee’s most vulnerable students.” Although improving child literacy provides important benefits to society, we concluded that an improvement in child literacy did not appear to represent an improvement in the quality of child care services offered by providers. We also discussed the matter with department personnel and could not identify how the literacy program aligned with any of the quality activities identified in 45 CFR 98.53(a). Although we requested that information, program management did not provide federal guidance indicating that summer literacy programs represented quality activities. Also, although federal regulations require the CCDF state plan to describe quality activities, we noted that the literacy program was not identified in the plan.

³¹ The remaining \$32,550 was budgeted for training activities, which can represent quality activities.

We also considered whether the organizations administering the summer camps could be considered child care providers, and thus perhaps the activities could be allowable child care services. Based on discussion with department staff, review of subrecipient application materials, and review of the agreement, however, we found no evidence that these summer camp organizations had evaluated each child's eligibility based on the CCDF eligibility requirements.

We also noted other concerns related to characterizing the operation of the literacy camps as direct child care services, such as CCDF's requirement that child care services be provided using a sliding fee scale (we could identify no evidence that the department collected the CCDF copayment from parents of students attending literacy camps based on the state's sliding fee scale required for child care services). We also found no evidence that the department ensured the literacy camps met the requirements related to provider licensing and health and safety.

We questioned the full amount of federal expenditures charged to the CCDF grant for the Read to be Ready Summer Camp Program during the audit period (July 1, 2016, through June 30, 2017), \$1,998,847, as well as the amount charged after the audit period (July 1, 2017, through December 7, 2017) through the end of our audit fieldwork, \$5,091,942.

Risk Assessment

We reviewed DHS' November 2016 Financial Integrity Act Risk Assessment and determined that top management addressed the risks associated charging costs to a federal program that are unallowable under program regulations. Top management assessed the likelihood as small and having a remote impact; however, management did not identify the mitigating controls related to the activities allowed issue. Given the nature of this finding, we concluded that management did not adequately address this risk in the risk assessment.

Criteria

According to 45 CFR 98.53(a),

- (a) The Lead Agency must expend funds from each fiscal year's allotment on quality activities pursuant to §§98.50(b) and 98.83(g) in accordance with an assessment of need by the Lead Agency. Such funds must be used to carry out at least one of the following quality activities to improve the quality of child care services for all children, regardless of CCDF receipt, in accordance with paragraph (d) of this section:
 - (1) Supporting the training, professional development, and postsecondary education of the child care workforce ...
 - (2) ... providing technical assistance to eligible child care providers . . .
 - (3) Developing, implementing, or enhancing a tiered quality rating and improvement system for child care providers and services to meet consumer education requirements ...
 - (4) Improving the supply and quality of child care programs and services for infants and toddlers ...

- (5) Establishing or expanding a statewide system of child care resource and referral services.
- (6) Facilitating compliance with Lead Agency requirements for inspection, monitoring, training, and health and safety, and with licensing standards.
- (7) Evaluating and assessing the quality and effectiveness of child care programs and services offered . . .
- (8) Supporting child care providers in the voluntary pursuit of accreditation by a national accrediting body with demonstrated, valid, and reliable program standards of high-quality.
- (9) Supporting Lead Agency or local efforts to develop or adopt high-quality program standards relating to health, mental health, nutrition, physical activity, and physical development.
- (10) Carrying out other activities, including implementing consumer education provisions at §98.33, determined by the Lead Agency to improve the quality of child care services provided, and for which measurement of outcomes relating to improvement of provider preparedness, child safety, child well-being, or entry to kindergarten is possible.

Per 45 CFR 98.53(b), “Pursuant to §98.16(j), the Lead Agency shall describe in its Plan the activities it will fund under this section.”

Cause

Department staff believed that the entirety of the Read to be Ready Summer Camp Program qualified as a child care quality activity.

Effect

By spending federal grant funds on unallowable activities, the federal awarding agency could request repayment or offset future grant awards by the entire amount of the questioned costs. According to Title 45, CFR, Part 98, Section 65(d),

Any amounts determined through an audit not to have been expended in accordance with these statutory or regulatory provisions, or with the Plan, and that are subsequently disallowed by the Department shall be repaid to the Federal government, or the Secretary will offset such amounts against any other CCDF funds to which the Lead Agency is or may be entitled.

Questioned Costs

We questioned \$3,821,893 charged to Discretionary funds of the CCDF grant award for the federal fiscal year October 1, 2015, through September 30, 2016 (FFY 2016), and \$3,268,896 charged to FFY 2017 Discretionary funds, for a total of \$7,090,789 in federal questioned costs.

According to Title 2, CFR, Part 200, Section 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 and do not reflect the actions a prudent person would take in the circumstances.

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. The known questioned costs in this finding exceed \$25,000.

Recommendation

The department should obtain written, concurring guidance from the federal government that identifies the regulatory basis supporting that the Read to be Ready Summer Camp Program constitutes a quality activity as defined in CCDF regulations. If the department continues to fund the program as a quality activity, the CCDF state plan should be amended to identify the program as a quality activity and to describe the program in accordance with federal regulations.

If the department concludes that the Read to be Ready Summer Camp Program is a direct child care services activity, the department should establish adequate internal controls to ensure that the state meets all CCDF regulations related to child care services for the program.

Management should also include in its annual risk assessment the risk and mitigating controls associated with charging unallowable costs to federal programs.

Management's Comment

We concur in part.

As noted in the finding, the department maintains that the Read to be Ready Summer Camp Program is an allowable activity and cost under the Child Care and Development Fund (CCDF).

To support the Department's position, the Department received email notification from the United States Department of Human Services (HHS), Administration for Children and Families (ACF), Office of Child Care (OCC), Region IV, which included approval to amend the state plan to incorporate the Read to be Ready Summer Camp Program.

On February 21, 2018, the CCDF State Plan was opened and amended to include the following:

Another partnership with the Department of Education includes the Read to Be Ready Summer Camp Program which is perfectly aligned with the 2Gen framework. It is a definite example of intentional and collective impact in support of the future success of Tennessee children and families. The criteria used for participation in Read to be Ready Summer Literacy Camps include children participating in the Child Care Subsidy Program, free or reduced lunch, children and families experiencing homelessness and or children who live in economically disadvantage communities in Tennessee.

Children who participate in before and after school programs including children who enrolled in the Child Care Subsidy Program have the opportunity to experience a summer enriched program through the Read to be Ready Summer Literacy Camp.

Read to Be Ready Camps strategically promote attendance by partnering with families. Camps ensure that all families and children have equitable access and intentionally and responsively reach out when attendance is an issue. Home visits, translators, and supports are used to connect with and encourage families.

Below outlines some of the Read to be Ready Summer Camp enriched activities.

- Critical reading skills and increased motivation to read;
- Literacy coaching;
- Enrichment experiences related to art and music, in a manner that connects to and supports literacy in thoughtful ways;
- Hands-on learning and an introduction to concepts, experiences, and books that expand their background knowledge; and
- The ability to self-select the texts they want to read and the writing topics they want to explore.

The Department has worked in concert with HHS ACF Office of Child Care and received initial confirmation that the Read to be Ready Summer Literacy Camp, as detailed in the amended plan language, is an allowed use of CCDF. The Department is awaiting a final approval letter from the national office of the HHS ACF Office of Child Care of the pre-approved state plan amendment, which will further acknowledge the allowability of these expenditures. Additionally, the Department facilitated communication between the HHS ACF Office of Child Care and the auditors to resolve this finding and provide verification that use of CCDF to support the Read to be Ready Summer Literacy Camp is allowable. ACF confirmed that the state has discretion to use the CCDF, pursuant to the CCDBG Block Grant, for allowable activities and that some of activities as currently described in the Read to be Ready programs would be characterized as quality services, while other activities would fall under direct services. The finding states that “We reviewed the agreement for the summer 2017 program and concluded that the services described did not represent any of the quality activities described in 45 CFR 98.53(a).” This conclusion is not supported by the federal entity. It is noted that ACF indicated that a determination has not been made as to whether the specific expenditures were appropriately classified; however, that determination is not a federal requirement at this juncture.

Finding Number	2017-034
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, G1601TNCCDF, and G1701TNCCDF
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency – Matching, Level of Effort, Earmarking Material Weakness – Reporting Noncompliance – Matching, Level of Effort, Earmarking (93.575) Noncompliance – Reporting
Compliance Requirement	Matching, Level of Effort, Earmarking Reporting
Repeat Finding	2016-046 2016-051
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	G1401TNCCDF	\$1,614,442

As noted in prior audits, the Department of Human Services again did not establish adequate controls over reporting and earmarking; submitted inaccurate, unsupported ACF-696 Federal Financial Reports; and did not comply with earmarking requirements

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 Tennessee Department of Human Services to complete and submit a quarterly financial status report (ACF-696), which presents cumulative expenditures by funding stream for each separate grant award, 30 days after the end of each quarter. HHS uses ACF-696 reports submitted by states to make critical, time-sensitive programmatic decisions related to CCDF – such as determining how much unused CCDF funds will be redistributed from one state to another at the end of each federal fiscal year. HHS also uses the reports to monitor states' compliance with

various fiscal-related requirements, such as earmarking and matching requirements. As a result, complete, accurate, and timely reporting is essential to the integrity of the CCDF program.

Department of Finance and Administration's Division of Accounts assists the Department of Human Services (the department) by performing federal reporting responsibilities, which include submitting the ACF-696 report to HHS.

HHS also requires the department to meet various earmarking requirements for CCDF, including earmarks for Targeted Funds. The earmarking requirements for Targeted Funds specify minimum amounts that must be used for specified activities.

For the federal fiscal year October 1, 2013, through September 30, 2014 (FFY 2014), HHS allocated Tennessee \$2.6 million in Infant and Toddler Targeted Funds; \$4.4 million in Quality Expansion Targeted Funds; and \$424,045 in School Age/Resource and Referral Targeted Funds. The terms and conditions of the CCDF grant award required the state to spend the FFY 2014 targeted funds by September 30, 2016.

During the prior audit, we found that the former Accountant reported inaccurate and unsupported amounts on the ACF-696 reports, the former Fiscal Director did not adequately review the ACF-696 reports to identify errors, and the department did not establish internal controls to ensure compliance with federal earmarking requirements for CCDF. Management concurred in part with the finding related to the ACF-696 report and concurred with the finding related to the internal controls for earmarking requirements. Management stated that the department created a new report preparation template, assigned new staff and management oversight, and implemented an additional review process for preparation and review of the ACF-696 report beginning with the report for the quarter ended September 30, 2016. During the current audit, we found that the corrective action and new review process management described had been implemented; however, we still found problems with the ACF-696 reports.

Conditions and Criteria

To determine whether fiscal staff complied with federal reporting requirements, we tested the ACF-696 reports for the quarter ended September 30, 2016, for the CCDF grant award provided for FFY 2016, and for the quarter ended June 30, 2017, for the CCDF grant award provided for FFY 2017.

To determine whether fiscal staff and the department complied with federal earmarking requirements, we also tested earmarking expenditures charged to the CCDF grant award provided for FFY 2014 to determine whether the department expended the required amounts of Targeted Funds by the September 30, 2016, cut-off date.³²

Based on our audit procedures, we found that the department

- did not submit required ACF-696 reports to HHS (Condition A),

³²According to the CCDF program-specific terms and conditions, the earmarking compliance requirements are verified at the end of the discretionary liquidation period. The discretionary liquidation period for the CCDF grant award for FFY 2014 ended on September 30, 2016.

- did not establish adequate internal controls over reporting (Condition B),
- submitted ACF-696 reports that were inaccurate and unsupported (Condition C),
- did not establish adequate internal controls over earmarking (Condition D), and
- did not comply with the earmarking requirements for Targeted Funds (Condition E).

Condition A. The Department Did Not Submit Required ACF-696 Reports to HHS

Based on our discussion with fiscal staff and our observation of the Administration for Children and Families Online Data Collection website, the Department Controller did not ensure that fiscal staff filed 7 ACF-696 reports that were required to be filed for our audit period. Specifically, fiscal staff had not filed any of the 4 quarterly reports for the 2015 grant award for the period July 1, 2016, through June 30, 2017, and 3 quarterly reports for the 2016 grant award for the quarters ended December 31, 2016; March 31, 2017; and June 30, 2017. As of December 19, 2017, the reports had been outstanding for 142 to 415 days, with an average of 278 days.

According to Provision 31 of the *Child Care Development Fund Grants Program Specific Terms and Conditions for State and Territory Grantees*, “the grantee must submit a quarterly financial status report (ACF-696) of expenditures . . . Quarterly reports are due 30 days after each federal fiscal quarter.”

Condition B. The Department Did Not Establish Adequate Internal Controls Over Reporting

We reviewed the report preparation templates the Accountant used to prepare the ACF-696 reports we tested. The report templates included built-in formulas that summarized and classified expenditures based on supporting financial data from Edison, the state’s accounting system. Based on our review of the templates and subsequent testing of the reports, we noted that the template misclassified pre-kindergarten (pre-K), travel, and information systems expenditures. We also identified other errors in the report template that resulted in fiscal staff reporting inaccurate amounts on ACF-696 reports.

Misclassification of Pre-kindergarten (Pre-K) Expenditures

Fiscal staff included pre-K expenditures on line 1(h)(3), all other non-direct services, in the reporting template. The federal report instructions, however, do not include pre-K expenditures as one of the seven categories of expenditures that are included on line 1(h)(3). Specifically, the *Instructions for Completion of Form ACF-696, Financial Reporting Form for the Child Care and Development Fund* include the following seven categories for line 1(h)(3):

- 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.

Because pre-K expenditures reported in the ACF-696 report must be for child care subsidies to children who meet CCDF eligibility criteria, pre-K expenditures are considered direct services and should be reported on line 1(g), direct services, rather than line 1(h)(3), all other non-direct services.

As a result of reporting pre-K expenditures incorrectly, the Accountant overstated all other non-direct services and understated direct services by \$5,257,821 and \$1,969,694 charged to state matching funds for the FFY 2016 and FFY 2017 reports tested, respectively, and \$3,789,178 and \$3,163,792 charged to maintenance of effort (MOE) for the FFY 2016 and FFY 2017 reports tested, respectively.

Misclassification of Travel Expenditures

The reporting template spreadsheets that fiscal staff used to prepare the reports were not designed properly to include all travel costs in the calculation of administrative costs and exclude travel costs from all other report lines. As a result, the Accountant misclassified travel expenditures as quality activities in line 1(b), certificate program cost/eligibility determination in line 1(h)(2), and all other non-direct services in line 1(h)(3), rather than reporting travel expenditures in line 1(a), child care administration. According to Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 54(a), “[Administrative] activities may include but are not limited to: ... (2) Travel costs incurred for official business in carrying out the program.”

Table 1
Travel Expenditures Misclassified on ACF-696 Reports

Quarter Ended September 30, 2016, For FFY 2016 Award		
	<i>Quality Activities</i>	<i>All other non-direct services</i>
Mandatory Fund	\$187,519	\$136,273
Matching Fund	\$115,968	\$114,794
MOE	\$6,786	--
Quarter Ended June 30, 2017, for FFY 2017 Award		
Mandatory Fund	\$53,467	\$46,711
Matching Fund	\$479	\$30,899
MOE	\$16,097	\$61,634

CCDF is subject to an earmarking requirement that prohibits the state from spending more than 5% of the CCDF award on administrative costs, including travel. Because the template was not designed properly to classify travel expenditures as administrative expenditures, fiscal staff could not rely on the template and resulting reports to prevent or detect noncompliance with the administrative earmarking requirement. As a result, this matter represents an internal control deficiency over both reporting and earmarking.

Misclassification of Information Systems Expenditures

The reporting template spreadsheets that fiscal staff used to prepare the reports were not designed properly to classify expenditures from the department's Information Systems Division into line 1(a), child care administration, and line 1(h)(1), systems. When calculating the amount of expenditures reportable in line 1(h)(1), the templates were designed improperly to include all costs related to the Information Systems Division (such as the salaries of executive leadership within the division and other indirect costs charged to CCDF and other programs) as systems costs, instead of including only those costs specifically related to establishing or maintaining a child care information system.

According to the *Instructions for Completion of Form ACF-696 Financial Reporting Form for the Child Care and Development Fund (CCDF)*, line 1(h)(1) includes expenditures for "establishment and maintenance of computerized child care information systems." We concluded that Information System Division expenditures related to the Tennessee Child Care Management System constituted expenditures to establish and maintain computerized child care information systems; however, the division's other expenditures were indirect costs that should be reported in line 1(a), child care administration.

Due to the incorrect classification of administrative expenditures as information systems expenditures, the Accountant erroneously reported \$1,715,044 and \$403,270 as MOE systems expenditures for the 2016 and 2017 reports tested, respectively.

We also noted that the Accountant incorrectly reported \$858,064 and \$84,202 in MOE expenditures as administrative expenditures instead of systems expenditures in the 2016 and 2017 reports tested, respectively, as well as \$140,817 in Discretionary Fund expenditures as administrative expenditures instead of systems expenditures in the 2017 report tested.

Other Errors Related to Report Templates

In addition to the misclassification issues noted above, we also identified several relatively minor deficiencies in the reporting templates that led staff to report inaccurate amounts. These matters were generally related to the templates not including all relevant CCDF expenditures in the accounting records and to errors in calculation formulas, such as formulas incorrectly reporting Mandatory Fund expenditures as Matching Fund expenditures. The total amount of misstatements identified in the two reports tested related to these other errors was \$211,237.

Condition C. The Department Submitted ACF-696 Reports That Were Inaccurate and Unsupported

In addition to the reporting errors discussed in Condition B above, which resulted from weaknesses in reporting templates, we identified four categories of reporting errors during our testwork:

1. inaccurate amounts reported as federal share of unliquidated obligations,
2. inadequate documentation for reported indirect costs,
3. amounts reported in the incorrect fiscal years' reports, and

4. misclassification of quality activities expenditures.

Inaccurate Amounts Reported as the Federal Share of Unliquidated Obligations

Based on our testwork, we found that the Accountant understated the amount reported as the federal share of unliquidated obligations on the September 30, 2016, ACF-696 report tested by \$1,723,170. This error resulted from the Accountant improperly excluding \$893,400 in unliquidated obligations associated with two contracts and overstating liquidated obligations by \$829,770.

According to 45 CFR 75.2, “for reports prepared on an accrual expenditure basis, [unliquidated obligations] are obligations incurred by the non-Federal entity for which an expenditure has not been recorded.” In other words, obligations are considered liquidated when an expenditure is recorded for the obligation.

According to 45 CFR 75.2, “when used in connection with a non-Federal entity’s utilization of funds under a Federal award, 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.”

Inadequate Documentation for Reported Indirect Costs

Rather than classifying all costs in the report based on supporting documentation, we found that the Accountant arbitrarily assigned 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.

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 our review of the department’s cost allocation plan, which provides narrative descriptions of some activities performed by Family Assistance Division staff, 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 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 2016 and 2017 reports we tested, the Family Assistance costs totaled \$1,249,727 and \$495,585, respectively.

Amounts Reported in the Incorrect Fiscal Years' Reports

The Accountant recorded state matching and maintenance of effort (MOE) expenditures in the incorrect fiscal years' reports. Specifically, the Accountant used the accounting period of state matching and MOE expenditures to determine the report on which to include state matching and MOE expenditures. For example, we identified state matching expenditures recorded in FFY 2016; however, the funds were actually obligated in FFY 2015, so the expenditures should have been included in a report for the 2015 grant award (state and federal Matching Funds must be obligated in the year of the grant award—there is no provision allowing state Matching Funds obligated in 2015 and expended in 2016 to be claimed as match for 2016 federal Matching Funds). Similarly, we identified negative adjustments recorded in FFY 2017 that were actually reductions in MOE expenditures obligated and expended in FFY 2016, so the decreases in state expenditures should be included in a report for FFY 2016, not 2017.

See **Table 2** for the amounts reported in the incorrect fiscal years' reports.

Table 2
Amounts Reported in the Incorrect Fiscal Years' Reports

Report Line	Amounts Overstated (Understated)	
	ACF-696 Report for the Quarter Ended September 30, 2016, for the FFY 2016 Award	ACF-696 Report for the Quarter Ended June 30, 2017, for the FFY 2017 Award
1(a), Child Care Administration	\$932	(\$247,648)
1(b), Quality Activities Excluding Targeted Funds	\$717,028	\$146
1(g), Direct Services	\$458,642	\$137,926
Totals	\$1,176,602	(\$109,576)

Misclassification of Quality Activities Expenditures

Based on our testwork, we found that the Accountant erroneously reported \$15,035 in Quality Activities expenditures as Quality Expansion Targeted Funds expenditures on the ACF-696 report for the quarter ended June 30, 2017, for the CCDF grant award provided for FFY 2017. For the FFY 2017 grant award, HHS awarded no Quality Expansion Targeted Funds; therefore, no Quality Expansion Targeted Fund expenditures should have been included in the report.

Condition D. Program Staff and Fiscal Staff Did Not Establish Adequate Internal Controls Over Earmarking

We found that the Child Care Services Director did not establish internal controls to ensure compliance with earmarking requirements. Specifically, the Child Care Services Director did not ensure that department staff developed a process for budgeting earmarking funds and periodically monitoring CCDF expenditures to ensure that the department met the minimum earmarking requirements.

In addition, we noted that fiscal staff had established a control to identify when the quality activities earmarking requirement had not been met; however, the control was not designed properly. Specifically, based on our review of the reporting templates for the ACF-696 report, the templates included formulas to calculate the percentages of expenditures spent on administrative activities and quality activities. The template was designed to display an error message if the percentage spent on quality earmarking expenditures was less than 4% instead of 7% of the total amount of Mandatory, Matching, and Discretionary Funds expenditures. Federal regulations increased the minimum quality expenditure requirement for the FFY 2016 and FFY 2017 grant awards from 4% to 7% of the total amount of Mandatory, Matching, and Discretionary Funds expenditures. Because the condition for the error message was not designed properly to alert fiscal staff when the quality earmarking requirement was not met, the control activity was not effective in preventing or detecting noncompliance.

According to “Appendix I: Requirements,” of the *Standards for Internal Control in the Federal Government*, “Management should design control activities to achieve objectives and respond to risks” and “Management should implement control activities through policies.”

Condition E. Program Staff Did Not Comply With the Earmarking Requirements for Targeted Funds

Based on the department’s accounting records, we found that the department’s program and fiscal staff did not ensure that the department expended \$1,614,442 of Tennessee’s allotment of Infant and Toddler Target Funds and School-Age/Resource and Referral Target Funds for the FFY 2014 grant award. Provision 9c of the terms and conditions of the grant award require the state to expend all of its allotment of Targeted Funds.

While the accounting records demonstrated that the department did not spend the state’s full allotment of targeted funds, we noted that the former Accountant had submitted a final report for the 2014 grant award for the quarter ended September 30, 2015, that inaccurately reported that all allotted targeted funds had been spent. As reported in the prior audit finding, we noted that the former Accountant had made improper, off-book adjustments during the prior audit period. These off-book adjustments improperly increased the amount of reported Targeted Fund expenditures, which concealed the noncompliance with the earmarking requirement in the final report for the FFY 2014 grant award. See **Table 3** for the amounts of shortages in Targeted Fund expenditures.

Table 3
Shortages of Targeted Fund Expenditures for the Federal Fiscal Year 2014 Grant Award

Targeted Fund	Allotment	Expenditures Per Accounting Records	Shortage
Infant and Toddler	\$2,566,233	\$1,273,922	\$1,292,311
School-Age/Resource and Referral	\$424,045	\$101,914	\$322,131
Total Shortage:			\$1,614,442

Source: Edison accounting records.

According to Section 33 of the terms and conditions for the CCDF grant award, the federal government will recoup funds not spent in accordance with the earmarking requirement for Targeted Funds. Because the department expended funds earmarked for Infant and Toddler and

School-Age/Resource and Referral activities on other program activities, we questioned \$1,614,442 in CCDF expenditures charged to federal fiscal year 2014 Discretionary Funds.

Condition F. Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment and determined that management identified in the assessment the risk associated with ensuring that reports are submitted accurately and agree with accounting records and the risk that earmarking requirements are not met; however, management did not indicate the specific controls to mitigate these risks. For both reporting and earmarking risks, management documented in the assessment that there was a high impact and a remote (low) likelihood that the risks would occur. Given the frequency with which we identified inaccuracies in federal reports and noncompliance with earmarking requirements, we concluded that management should have assessed the likelihood as probable (high) for reporting and reasonably possible (medium) for earmarking, and management should have included control activities for both risks in the assessment.

Cause

Regarding not submitting all required ACF-696 reports, according to the Accountant, the Online Data Collection system was under maintenance from late-November 2016 to mid-April 2017 and did not allow submission of the ACF-696 reports. According to the Department Controller, prior audit findings led management to review transaction-level detail for the FFY 2015 and FFY 2016 CCDF awards. The review identified significant issues in recording and reporting transactions for CCDF. Therefore, management elected to delay filing the reports until a transaction-level review could be performed and reports that management felt were accurately presented could be prepared. For the report for grant year 2015 for the quarter ended September 30, 2016, which was due on October 30, 2016, the Accountant stated that the report was not filed because the former Accountant, who separated from the department in October, did not prepare and file the report before his separation.

Regarding submitting ACF-696 reports that were inaccurate and unsupported, based on discussion with the Department Controller, historical recording practices and lack of knowledge of program requirements have led to incorrect accounting entries and misclassifications of expenditures.

Although requested, program staff did not provide an explanation as to why controls over earmarking were inadequate and why the Targeted Funds earmarking requirements were not met.

Effect

Without accurate reporting, neither the state nor the federal awarding agency can make appropriate programmatic decisions based on the contents of reports. For example, understating obligations of CCDF grant funds can lead to HHS redistributing the state's CCDF funding to another state based on erroneous reports, which could be harmful to the state. Likewise, without accurate reports from the state, HHS cannot fulfill its regulatory responsibilities and fulfill provisions of the terms and conditions of the grant award (such as identifying and recovering disallowed costs when administrative earmark limits are exceeded) or ensuring that the appropriate amounts of federal funding are devoted to improving the quality of child care provided in a state.

In addition, as noted above, the terms and conditions of the CCDF grant award state that noncompliance with earmarking requirements will result in HHS recouping federal funds not spent in accordance with the requirements. Finally, failure to establish and maintain effective internal controls increases the risk that noncompliance will not be prevented or detected and corrected timely.

Questioned Costs

We questioned \$1,614,442 in FFY 2014 federal Discretionary Funds that were not expended in accordance with earmarking requirements for Targeted Funds.

Regarding questioned costs, 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. In 2 CFR 200.84, questioned cost is defined as

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 Department Controller should evaluate the current internal controls over reporting and ensure that the internal controls are properly designed and operating effectively to provide reasonable assurance that fiscal staff prepare the ACF-696 reports in accordance with federal report instructions and submit ACF-696 reports that are complete, accurate, and supported by the department's accounting records. This should include

- updating fiscal staff's reporting template spreadsheets to address all misclassification and other template errors identified in this finding;
- updating fiscal staff's reporting template spreadsheets to begin automatically calculating unliquidated obligations using expenditure data to minimize the risk of error;
- ensuring that fiscal staff include all obligations in reports;
- establishing procedures for classifying Family Assistance expenditures based on underlying accounting records rather than assigning 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;
- establishing a process for fiscal staff to begin using obligation date information to ensure expenditures are reported in the correct fiscal year's ACF-696 report; and

- ensuring fiscal staff verify that Targeted Funds are only reported when the grant award includes a Targeted Fund allotment.

In addition, the Department Controller and the Child Care Services Director should coordinate to establish internal controls to monitor compliance with the earmarking requirements and ensure that the earmarking requirements are met. This process should include developing a budget for the minimum amounts that will be spent on quality activities and targeted funds and developing policies and procedures for periodically monitoring expenditures to ensure the state will meet the earmarking requirements within the required timeframe.

The Commissioner of the Department of Human Services should assess all significant risks with sufficient attention to the impact and likelihood of the risk. 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

Condition A. The Department Did Not Submit Required ACF-696 Reports to HHS

We concur.

The department has not submitted final reports for the federal fiscal years 2015 and 2016. The decision to delay the submission of the reports was based on the review of prior-year audit findings, as well as the review of general ledger data. The department will submit complete and accurate final reports for federal fiscal years 2015 and 2016 by June 30, 2018.

Condition B. The Department Did Not Establish Adequate Internal Controls Over Reporting

We concur in part.

The template prepared did incorrectly apply pre-kindergarten and some travel expenses to the incorrect reporting lines. The template will be corrected and impacted reports will be revised by June 30, 2018.

We do not concur that information system costs were misclassified. The auditor's interpretation of the report instructions appears to be very narrow. The guidance states "establishment and maintenance of computerized child care information systems." There are two systems that are considered child care information systems by management. TCCMS is one of those systems and Edison (the state's ERP system) is another. TCCMS cannot independently affect the proper administration of the child care program without acting in concert with Edison. Information costs of both were appropriately included on the proper line of the report.

Condition C. The Department Submitted ACF-696 Reports That Were Inaccurate and Unsupported

We concur.

Based on review of the template and reports, inaccurate information was reported. Management will update and correct the September 30th reports for the 2016 and 2017 awards by June 30, 2018, to ensure expenditures are reported properly.

Condition D. Program Staff and Fiscal Staff Did Not Establish Adequate Internal Controls Over Earmarking

We concur.

The Director of Child Care Services will develop an earmark matrix that defines the allowable earmark categories required by CCDF and will establish review meetings with fiscal staff to discuss expenditure reports, obligations, and allocations. In addition, budget staff will create a tool to report budget expenditures that will be reviewed by the Director of Child Care Services to confirm that earmark expenditures comply with requirements.

Condition E. Program Staff Did Not Comply With the Earmarking Requirements for Targeted Funds

We concur.

The Director of Child Care Services will develop an earmark matrix in collaboration with budget staff that defines the allowable earmark categories required by CCDF and includes the specific requirements for earmarking Targeted Funds to enable accurate tracking of expenditures and submission of required reports.

Condition F. Risk Assessment

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). For the Department's November 2016 Financial Integrity Act Risk Assessment, risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition B. The Department Did Not Establish Adequate Internal Controls Over Reporting

Regarding management considering Edison to be a child care information system, the state uses Edison for many functions, including accounting, payroll, and human resources. In accordance with the department's cost allocation plan, fiscal staff allocated expenditures for Edison as indirect costs to all programs administered by the department, including CCDF. According to 45 CFR 98.54(a)(6), indirect costs as determined by a cost allocation plan are administrative costs. As a result, the expenditures for Edison were indirect costs reportable in line 1(a), child care administration.

Finding Number	2017-035
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	G1601TNCCDF and G1701TNCCDF
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency – Cash Management (93.596) Material Weakness – Matching, Level of Effort, Earmarking (93.596) Material Weakness – Period of Performance Noncompliance – Cash Management and Matching, Level of Effort, Earmarking (93.596) Noncompliance – Period of Performance (93.575)
Compliance Requirement	Cash Management Matching, Level of Effort, Earmarking Period of Performance
Repeat Finding	2016-047
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	G1701TNCCDF	\$1,408,430
93.596	G1601TNCCDF	\$617,119

Fiscal staff within the Department of Human Services did not ensure matching and cash management requirements were met for the Child Care and Development Fund Cluster and, for the third year, did not adhere to period of performance requirements for the program, resulting in federal questioned costs of \$2,025,549

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, which 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. In addition, in order to receive each year's allotment of Matching funds, the state must expend \$18,975,782 in state-funded expenditures each year to meet maintenance of effort requirements.

Under the matching and period of performance requirements, the U.S. Department of Health and Human Services requires 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 under CCDF grant awards, it is essential that the department can clearly demonstrate the amount of federal funds that have been properly obligated.

During the prior audit, we found that the Department Controller had not ensured that all federal Matching funds were obligated in the proper federal fiscal year and that he had not ensured that all expenditures charged to CCDF adhered to period of performance requirements.

Management concurred with the finding and stated that staff were provided a copy of the relevant regulations and training. In addition, management stated that the order in which the Mandatory, Matching, and Discretionary awards were obligated and subsequently liquidated was modified and that the department has implemented a process to query the general ledger (Edison) to detect and correct expenditures that were obligated outside of the period of performance of a federal award.

For our current audit testwork, we reviewed CCDF expenditure transactions and 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, 2015, through September 30, 2016 (federal fiscal year 2016).

While planning our current audit work, fiscal management informed us at the beginning of our audit that they were still working to resolve fiscal and accounting issues for CCDF program. The CCDF issues had occurred under the previous fiscal staff³³ and involved accounting practices which led to noncompliance with CCDF program requirements. Because current fiscal staff were in the process of identifying errors and adjusting accounting records to achieve corrective action, fiscal staff felt it practical to delay their submission of the federal financial reports until such time as they could meet the reporting expectation. We recognize management's continued progress toward compliance with the CCDF program.

Condition and Cause A: Fiscal Staff Did Not Ensure Matching Fund and Cash Management Requirements Were Met and Did Not Establish Adequate Controls Over Matching and Cash Management

The Department Controller did not ensure that fiscal staff met CCDF matching requirements for \$617,119 in federal expenditures charged to the Matching funds portion of the 2016 CCDF grant award. While performing our matching testwork for the federal fiscal year (FFY) 2016 grant award, we noted that in FFY 2017, fiscal staff made adjusting journal entries in March 2017 that reduced FFY 2016 state Matching fund expenditures by \$3,931,336 and charged these state expenditures to federal funds (primarily FFY 2016 federal Matching funds). As a result of these

³³ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including implementation of the cost allocation plan. Therefore, the Department Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

adjusting entries, federal expenditures (that were originally matched using state expenditures and for which federal funds had already been drawn) were no longer sufficiently matched with state funds. After fiscal staff made the adjusting entries, in March 2017 fiscal staff drew down an additional \$320,114 of federal FFY 2016 matching funds that were not supported by sufficient state matching expenditures at the time of the federal funds request, which is not in accordance with federal cash management requirements and further increased the deficit in state matching expenditures. Based on our audit procedures, the deficit in FFY 2016 state Matching fund expenditures was \$331,565 as of the end of our audit field work.

Because the federal share of Matching funds for federal fiscal year 2016 was 65.05% for Tennessee, a \$331,565 deficit in state Matching fund expenditures for FFY 2016 means that the state did not incur sufficient state expenditures to match \$617,119 in federal Matching fund expenditures charged to the FFY 2016 grant award ($(\$331,565 / (1 - 65.05\%)) \times 65.05\% = \$617,119$).

We found that the department exceeded state matching requirements for the FFY 2017 grant award, and we considered whether the excess FFY 2017 state matching costs could be used to offset the deficit in FFY 2016 state matching costs. Per Title 45, *Code of Federal Regulations* (CFR), Section 98.60(d)(3), the non-federal share (the state match) of the Matching fund must be obligated in the fiscal year in which the funds are granted; therefore, obligations of non-federal funds incurred in the subsequent federal fiscal year may not be used to meet the matching requirement for Matching funds granted in the prior federal fiscal year. As a result, we did not offset the deficit in FFY 2016 state Matching fund expenditures by the surplus in FFY 2017 state Matching fund expenditures because the offset is not allowed given the obligation requirements.

Inadequate Controls Over Matching Requirements

Prior to the federal fiscal year 2017 grant award, the department did not track state Matching fund or maintenance of effort expenditures by grant year in its accounting system. For example, all state matching expenditures for federal fiscal years 2014, 2015, and 2016 were accounted for as a pool of state expenditures in the accounting records instead of each federal fiscal year having its own set of accounting records for Matching funds. Because federal regulations require the state share of Matching funds and maintenance of effort funds to be obligated and expended, respectively, in the fiscal year of the grant award, and because fiscal staff routinely make accounting entries that increase or decrease matching and maintenance of effort expenditures associated with prior federal fiscal years, tracking expenditures by federal fiscal year is essential. By using the state pool approach, the department's fiscal staff could only make an accurate determination of whether the department met the matching requirement if they performed a detailed, transaction-level analysis. This made it difficult to easily identify when the department had not met the matching requirement for a particular fiscal year's grant award. Management corrected this problem for Matching funds beginning with the federal fiscal year 2017 grant award; however, at the end of our audit field work, management had not established a mechanism in its accounting records to track maintenance of effort expenditures by federal fiscal year.³⁴

³⁴ State-funded CCDF expenditures that are in excess of the annual maintenance of effort requirement can generally be used as state Matching fund expenditures. We found that the department met the maintenance of effort requirement for the FFY 2016 CCDF grant award.

Inadequate Controls Over Cash Management

In accordance with federal regulations, fiscal staff within the Department of Finance and Administration prepare annual interest calculations to determine any state or federal interest liabilities related to cash management. Based on the regulations in 31 CFR 205.15(d), if fiscal staff request federal CCDF Matching funds without incurring sufficient state expenditures for CCDF, the state incurs an interest liability that must be included in the Department of Finance and Administration's annual interest calculations. As a result, the March 2017 transfer of state matching expenditures to federal matching expenditures and subsequent drawdown of federal funds (discussed above) would represent a violation of 31 CFR 205.15(d) if the state failed to include the excessive cash draw into the state's annual interest calculations for the fiscal year ended June 30, 2017.

We noted that fiscal staff had not established a procedure for performing ongoing monitoring of matching requirements and notifying the Director of Cash Management of excessive drawdowns of federal funds so that the Director of Cash Management could factor excessive drawdowns into the state's calculations of interest liabilities in accordance with 31 CFR 205.15(d). Per discussion with the Director of Cash Management, the Director of Cash Management also did not have a process for identifying and factoring excessive draws into the state's interest liability calculations in accordance with 31 CFR 205.15(d). We concluded that this represents a control deficiency. We did not note noncompliance with 31 CFR 205.15(d) related to this matter, as the relevant interest liability calculations affected by the March 2017 adjustments were not required to be prepared until after the audit period had ended, but we have informed management of the potential for noncompliance.

Condition and Cause B: Fiscal Staff Did Not Adhere to Period of Performance Requirements

During our testwork, we noted that fiscal staff improperly transferred \$1,408,430 in FFY 2016 Matching fund expenditures to FFY 2017 Discretionary fund expenditures after our audit period, July 1, 2016, through June 30, 2017. Based on review of the supporting documentation for the transferred expenditures, the expenditures were associated with two contracts made in FFY 2016 (the contracts were signed in FFY 2016 and services began under the contract in FFY 2016). Per 45 CFR 98.60(d)(4) and 45 CFR 75.2, the determination of when an obligation occurs for services provided under contracts is based on when the contract is made, not when services under the contract are provided; therefore, the funds associated with these contracts were obligated in FFY 2016. In addition, based on review of 45 CFR 98.60(d)(1), FFY 2017 Discretionary funds must be obligated in FFY 2017 or FFY 2018 and cannot be obligated in FFY 2016. Because federal regulations prohibit obligating FFY 2017 Discretionary funds in FFY 2016, expenditures resulting from FFY 2016 obligations should have been charged to FFY 2016 Discretionary funds (or another allowable funding source, if no FFY 2016 Discretionary funding was available).

Condition A above is related to fiscal staff not ensuring that federal FFY 2016 Matching fund expenditures were supported by sufficient state FFY 2016 Matching fund expenditures. Although the transfer occurred after our audit period, the \$1,408,430 reduction in FFY 2016 federal Matching fund expenditures reduced the total amount of improperly expended federal FFY 2016 Matching funds in Condition A above from approximately \$2 million down to the \$617,119 reported in condition A. Even though the noncompliance occurred after the end of the audit period,

we identified the noncompliance in connection with our current audit procedures; therefore, we included this matter in this finding.

This issue appeared to be the result of staff not considering the obligation dates associated with the transactions that were moved.

Condition C. Risk Assessment

Given the problems identified during our field work, we also reviewed the Department of Human Services' November 2016 Financial Integrity Act Risk Assessment and determined that top management did not identify in management's risk assessment the risk that the department will not provide sufficient non-federal expenditures to meet matching requirements.

Criteria

According to 45 CFR 98.55(b), "Expenditures in a State . . . will be matched at the Federal medical assistance rate for the applicable fiscal year."

According to 45 CFR 98.60(d)(4), the 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, Expenditures and Obligations. We could identify no state or local law that addressed the determination of whether funds have been obligated and liquidated; therefore, the determination of whether funds have been obligated is based on the definition of obligations at 45 CFR 75.2:

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.

Per 45 CFR 98.60(d)(1), "Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year."

Per 45 CFR 98.60(d)(3), "Both the Federal and non-Federal share of the Matching Fund shall be obligated in the fiscal year in which the funds are granted and liquidated no later than the end of the succeeding fiscal year."

Per 31 CFR 205.15(d),

In programs utilizing mandatory matching of Federal funds with State funds, a State must not arbitrarily assign its earliest costs to the Federal government. A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.

Effect

Failure to meet matching, cash management, and period of performance requirements increases the risk that the federal expenditures will be disallowed and that the program will experience funding disruptions due to fiscal noncompliance.

Questioned Costs

We questioned \$617,119 in FFY 2016 federal Matching funds expended that were not supported by sufficient state matching expenditures and \$1,408,430 in FFY 2017 federal Discretionary funds that fiscal staff obligated outside the period of performance, for a total of \$2,025,549 in federal questioned costs.

Regarding questioned costs, 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.

In 2 CFR 200.84, questioned cost is defined as 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 Department Controller should ensure that fiscal staff continue to track state Matching fund obligations and expenditures by federal fiscal year and should ensure that fiscal staff begin tracking maintenance of effort expenditures by federal fiscal year. The Department Controller should ensure that fiscal staff responsible for cash management compare federal funds requests and associated state matching expenditures during the quarterly review procedures that the department performs in collaboration with the Director of Cash Management related to the Cash Management Improvement Act. In the event that fiscal staff identify excessive drawdowns of federal funds, fiscal staff should inform the Director of Cash Management so that the Director of Cash Management can calculate the state interest liabilities accurately. The Department Controller 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.

The Commissioner of the Department of Human Services should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable

requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

As noted in the finding, management informed the state auditors during the planning of their fieldwork that there remained several unresolved CCDF program accounting and reporting issues. The state auditors were informed that the process of researching and correcting previously identified issues would continue throughout their audit and beyond. Management has also communicated with its federal partners in this regard. We expect to complete the correction of historical and current expenditures by June 30, 2018.

Management does not believe it is appropriate to comment on the propriety of the costs questioned by the state auditors at this time, since they were derived from test work the state auditors performed on records they were aware were pending management adjustment. The state auditors have provided their data analytics associated with this finding and we are currently reviewing them. Once management examines the underlying transactions and supporting documentation, erroneous expenditures will be addressed, reclassified, and attributed to the correct grant award year.

Finding Number	2017-036
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	G1601TNCCDF and G1701TNCCDF
Identification Number	
Federal Award Year	2016 and 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Period of Performance
Repeat Finding	2016-047
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	G1601TNCCDF	\$13
93.575	G1701TNCCDF	\$95,543
93.596	G1601TNCCDF	\$147,757
93.596	G1701TNCCDF	\$603,089

For the third year, fiscal staff within the Department of Human Services did not comply with period of performance requirements for the Child Care and Development Fund, resulting in known federal questioned costs of \$846,402

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 to promote activities increasing 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' 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 Discretionary and Matching 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 clearly demonstrates the amount of federal funds that have been properly obligated.

For our current audit testwork, to determine whether fiscal staff complied with period of performance requirements when making manual adjustments to CCDF grant expenditures, we tested all 24 manual adjustment transactions over \$1 million, totaling \$72,050,459, for the audit period, July 1, 2016, through June 30, 2017. From the population of \$32,135,932 of manual adjustment transactions that were \$1 million or less for the audit period, we also tested a sample of 37 transactions, totaling \$9,850,903. Each manual adjustment could involve moving tens of thousands of CCDF payments or more from one federal fiscal year's CCDF grant award to another. We used data analysis procedures to determine the obligation dates associated with the CCDF payments in manual adjustments and tested whether the manual adjustments were in compliance with CCDF period of performance requirements.

During the prior audit, we found that management

- did not ensure that all federal Matching Funds were obligated in the proper federal fiscal year, and
- did not ensure that fiscal staff adhered to period of performance requirements when charging expenditures to CCDF.

Management concurred with the prior audit finding and stated that staff were provided a copy of the relevant period of performance regulations and training on the regulations. In addition, management stated that the order in which the Mandatory, Matching, and Discretionary awards are obligated and subsequently liquidated has been modified to minimize the amount of journal entries needed to ensure compliance with period of performance requirements. Further, management stated that a process to query the general ledger (Edison) had been implemented in order to detect and correct expenditures that were obligated outside of the period of performance of a federal award. During the current audit, we found that Department of Finance and Administration fiscal staff³⁵ complied with Matching Fund requirements by obligating all Mandatory Funds timely; however, based on procedures performed during the current audit, we found that the process management implemented to detect and correct expenditures obligated outside of the period of performance of a federal award did not always appear to be effective, because management still did not ensure that fiscal staff adhered to period of performance requirements when charging expenditures to CCDF.

Condition and Cause

We found that the Department Controller did not ensure that fiscal staff adhered to period of performance requirements when charging expenditures to CCDF awards provided for federal fiscal years 2016 and 2017. Specifically, for 2 of 24 transactions that were over \$1 million (8%), and 3 of 37 sampled transactions that totaled \$1 million or less (8%), we found that the tested transactions included \$147,770 and \$698,632, respectively, of improper transfers. The transfers were improper because staff did not ensure that the expenditures fell within the proper period of performance for each respective federal grant when moving expenditures between grant years. Because the period

³⁵ 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 Controller and other fiscal employees referenced in this finding are employees within the Department of Finance and Administration.

of performance for the federal fiscal year 2017 grant award did not begin until federal fiscal year 2017, for example, expenditures with obligation dates prior to the start of the federal fiscal year 2017 cannot be transferred to the federal fiscal year 2017 award. This is because federal regulations for CCDF do not provide for obligating CCDF funds prior to the federal fiscal year of the awards.

During our testwork, we also noted that fiscal staff had improperly transferred to 2017 state Matching Funds an additional \$250,240 in state Matching Fund expenditures obligated in 2016. As noted above, expenditures with obligation dates prior to the start of federal fiscal year 2017 cannot be transferred to the federal fiscal year 2017 award. See Table 1 below for a summary of all problems noted.

Table 1
Summary of Testwork Errors – Transfers in Violation of
Period of Performance Requirements

Fiscal Year That Original Expenditures Were Obligated	Grant Award Incorrectly Charged Through Adjusting Entry	Funding Source Charged Through Adjusting Entry	Amount Improperly Transferred
2014	Discretionary 2016	Federal	\$13
2015	Matching 2016	Federal	\$147,757
2016	Discretionary 2017	Federal	\$95,543
2016	Matching 2017	Federal	\$603,089
2016	Matching 2017	State	\$250,240
		Total	\$1,096,642

Fiscal staff created a process during the prior audit period that involved reviewing expenditure records to identify and correct obligations charged to the incorrect grant award; however, fiscal staff still did not identify all improper obligations. Specifically, the obligation date was generally captured in a field in the department's accounting data called the "service date." Fiscal staff, however, did not always verify the service date of the obligation fell within the appropriate period of performance when preparing adjusting entries. Additionally, 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 do not 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. Fiscal staff do not appear to have manually reviewed the adjusting entries for previously unidentified errors.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' November 2016 Financial Integrity Act Risk Assessment and determined that top

management assessed the risk as remote likelihood and medium impact; however, management did not identify mitigating controls related to ensuring the department complied with period of performance requirements.

Criteria

According to Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 60(d)(1),

Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.

According to Title 45, 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 and liquidated no later than the end of the succeeding fiscal year.

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, Expenditures and Obligations.

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.

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 funds that were improperly obligated and expended. Since, as discussed previously, the U.S. Department of Health and Human Services reallocates Discretionary Funds and Matching Funds that are not obligated during the period of performance in accordance with Title 45, CFR, Part 98, Sections 64(b) and 64(c)(1), respectively, obligating federal Discretionary and Matching Funds outside the period of performance could result in the department using federal funds that would otherwise be reallocated to other states.

Questioned Costs

We questioned a total of \$846,402 in federal CCDF expenditures and \$250,240 in state Matching Funds that the department improperly obligated during the audit period, July 1, 2016, through June 30, 2017, for a total of \$1,096,642. 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 Controller 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 to ensure compliance with period of performance requirements. Furthermore, the Commissioner of the Department of Human Services should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner, who should implement effective controls to ensure compliance with applicable requirements, assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur in part.

The department concurs that there are issues with period of performance requirements for the Child Care and Development Fund. The department's management communicated to the state auditors that we were aware of the issues and were working on correcting them. We have also communicated to our federal partners that we are working on correcting the issues with period of performance. We expect to complete the correction of historical and current expenditures by June 30, 2018.

We do not concur with the questioned costs.

We do not yet have enough information to concur with the questioned costs or errors noted in the finding. As stated in the finding, the state auditors used data analysis procedures in their testwork, rather than examining the actual underlying transactions and supporting documentation, so we are not comfortable with the accuracy of their results. Once management has concluded its review and reclassification of expenditures, any errors will be addressed and attributed to the correct grant award year.

Auditor's Comment

We provided details for the errors noted in the finding, including the underlying transactions identified as problems and related obligation information. We offered to provide additional details,

but management did not request additional information or inform us of any transactions that management believed were inaccurate.

As we told management during audit fieldwork, we examined the underlying transactions and supporting documentation as follows:

For child care payments, we determined the obligation dates for these transactions using the same process that fiscal staff used to determine obligation dates—by reviewing the service date information in the accounting records. For all other transaction types, we reviewed scanned copies of contracts and invoice records (if there was no contract) to determine the obligation dates for transactions identified as problems.

Finding Number	2017-037
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, G1402TNTANF, G1501TNCCDF, G1502TNTANF, G1601TNCCDF, G1602TNTANF, and G1701TNCCDF
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2016-050
Pass-Through Entity	N/A
Questioned Costs	\$46,648

As noted in the two prior audits, the department did not ensure that child care providers maintained adequate documentation of child care services and that one contractor's expenditures were reasonable, resulting in \$46,648 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 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 child care providers to receive payments through the Child Care Certificate Program for child care services, the providers must sign a provider agreement and comply with the program's requirements.

Child Care Provider Payment Process

Child care providers must submit Enrollment Attendance Verification (EAV)³⁶ forms (electronically or via mail) in order to receive payment for child care services. Providers are paid the weekly rates determined by the department, which depend on various factors such as

- the child's age,
- the type of child care facility,
- the provider's location within the state,
- whether the child care is full-time or part-time,

³⁶ EAV forms provide documentation of enrollment and attendance status for each child enrolled in the program.

- the child's 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). The department pays the providers based on the number of days they provided child care services.

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) in 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, the department's fiscal staff review the provider's EAVs for reasonableness and irregularities. The department requires each provider to maintain the past three years' attendance documentation (sign-in/sign-out sheets) as support for the EAVs at the provider's location.

DHS Monitoring Activities for the Provider

The department's Audit Services staff are responsible for monitoring child care providers. The purpose of the monitoring 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, Audit Services staff compare providers' EAVs to their attendance documentation (sign-in/sign-out sheets). Audit Services staff question a provider's reimbursed costs when they identify differences between the attendance documentation and the EAV and/or when the provider has not maintained the required documentation.

Other CCDF Program Responsibilities

The department is also responsible for planning and administering child care quality and improvement activities for the CCDF program. The department 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

Department management concurred in part with the prior audit finding and stated that program management will conduct provider training to reinforce the documentation requirements contained within the provider agreements. Child Care Certificate Program supervisory staff conducted the training, which included re-training providers on existing requirements such as maintaining attendance documentation, in September 2017. Since this training was conducted after the scope of our audit, noncompliance continued as noted in the conditions below. Management concurred that the contractor did not provide sufficient documentation to support the cost of services. The department contacted the contractor and requested supporting documentation. As part of management's corrective action related to unallowable payments to a contractor noted in the prior finding, they reviewed the contractor's questioned costs and supporting documentation and issued

a decision letter to a contractor on October 31, 2017. The contractor reimbursed the department for the unallowable costs on November 30, 2017.

Conditions and Criteria

To determine if management's corrective action to provide training to providers and contractors was effective, we tested a nonstatistical, random sample of 60 child care expenditures from July 1, 2016, to June 30, 2017, totaling \$1,138,393, from a population of 107,370 transactions totaling \$88,624,084. We requested attendance documentation from the child care providers and supporting documentation from contractors to support child-care-related costs. Based on our testwork, for 14 of 60 expenditures tested (23%), we noted that the department did not ensure that child care providers maintained adequate documentation of child care services and did not ensure that one contractor's expenditures were reasonable.

Provider Conditions

Child Care Providers Did Not Maintain Attendance Documentation

Based on our testwork, for 4 of the 14 errors noted, CCDF staff did not ensure the providers maintained attendance documentation to support the providers' requests for reimbursement for services as required by federal regulations. The providers did not provide attendance documentation when requested, and one provider was not aware that they were required to maintain attendance documentation to support the child care costs they received. We questioned \$2,120 for providers' and DHS's lack of documentation.

According to Title 45, *Code of Federal Regulations* (CFR), Section 98.90,

(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 paragraph (c) of this section shall be retained for three years from the day the Lead Agency or subgrantee submits the Financial Reports required by the Secretary, pursuant to §98.65(g), for the program period.

In addition, Section A.5(c) 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.

Child Care Providers Maintained Inadequate Attendance Documentation

Based on our testwork, we found that for 9 of the 14 errors noted, although the providers maintained some attendance documentation, it 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 parents or other responsible individuals had not signed the children in and out on the attendance documentation.
- A provider reported children as present on the EAV; however, the provider did not provide the attendance documentation to support the children's attendance.
- Providers reported children present on the EAV; however, the attendance documentation showed the children absent.
- A provider did not report a child on the EAV or attendance documentation.

We questioned a total of \$43,329 for the days on which the child care providers did not provide adequate documentation to support child care services.

According to 45 CFR 98.67,

- (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.
- (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 include 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 or 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.

Contractor Condition

Contractor Charged Unreasonable Costs to the Department Which Passed the Charges to the CCDF Grant

Based on our testwork, 1 of the 14 errors noted for the expenditure testwork was for a contractor. The contractor's documentation did not support costs that were reasonable under CCDF regulations, and the department's program staff did not review the contractor's supporting documentation for the expenditures before payment. Specifically, the costs did not relate to improving the quality of child care in Tennessee. These unreasonable charges included

- costs paid for landline phone bills and a personal storage unit for the contractor's Director of the Child Care Resource and Referral Center, and
- costs paid for personal motor club fees for three of the contractor's employees.

According to Section C.5(b)(1) of the contract between the department 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 \$1,199 for the unreasonable costs charged to the CCDF program.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the department's November 2016 Financial Integrity Act Risk Assessment. We 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 controls to ensure child care providers maintained adequate documentation to support child care services and to ensure a contractor's expenditures were reasonable.

Cause

The department has not adequately trained providers on federal and state program requirements. The Child Care Services Program Director stated that child care providers receiving subsidy payments sometimes require additional technical assistance and training to fully understand policies and procedures. As noted above, the department conducted training to reinforce existing requirements after the scope of our audit. Regarding the issue noted with the contractor, the Director also stated that the department's CCDF program staff did not perform reviews of a contractor's expenditures and supporting documentation during the audit period because the position in which the responsibility was assigned was vacant. The department's CCDF program

staff 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, it 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 \$46,648 charged to the CCDF 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.

Condition	Questioned Costs
Child care providers did not maintain attendance documentation	\$2,120
Child care providers maintained inadequate attendance documentation	\$43,329
Contractor charged unreasonable costs to the department which passed the charges to the CCDF grant	\$1,199
Total	\$46,648

Recommendation

The Deputy Commissioner of Programs and Services should ensure that child care providers maintain sign-in/sign-out sheets in accordance with the provider agreements to support the services provided and that contractors only claim reasonable costs related to improving the quality of child care. The Deputy Commissioner should also ensure that staff improve training and communication of program requirements with providers and contractors. In addition, although the department recouped costs from the contractor related to the prior audit finding, the department should perform a financial review to determine the extent of unallowable costs that the contractor charged to the program. Management should also include the risks and corresponding controls associated with providers and contractors not complying with the program requirements in the department's risk assessment.

Management's Comment

Condition A: *Child Care Providers Did Not Maintain Attendance Documentation*

We concur.

It should be noted that three (3) of the four (4) providers noted in this condition had ceased operations at the time of review. The department acknowledges that the provider agreement requires documentation to be retained for three (3) years. Future agreements will require five (5) years for records to be retained. The department is collaborating with federal and state partners to identify record storage alternatives for providers who cease operations.

Condition B: *Child Care Providers Maintained Inadequate Attendance Documentation*

We concur in part.

We do not concur that this condition taken alone demonstrates that the department did not ensure that child care providers maintained adequate documentation of child care services.

As noted in the finding, the department's Audit Services Division provides monitoring to determine compliance with documentation requirements for child care services rendered. The department's Child Care Services' Licensing Section also provides a substantial degree of monitoring for health and safety and regulatory requirements.

To demonstrate the Department's efforts in monitoring these agencies, the Department identified issues and on November 20, 2017, the department's management referred Provider 6 to the Comptroller's Office for further investigation due the serious issues noted by the department's auditors.

We concur that the costs noted in the report were unallowable as a result of inadequate maintenance of attendance documentation by child care providers.

The department will work to recover any questioned costs noted in this condition, contingent on receiving sufficient support documentation from the state auditor investigation.

Condition C: *Contractor charged unreasonable costs to the department which passed the charges to the CCDF grant*

We concur.

It should be noted that the costs noted in this condition are from the contractor's October 2016 invoice, which was submitted five months before the publication of the 2016 Single Audit Report in March 2017.

As noted in the finding:

. . . The department contacted the contractor and requested supporting documentation. As part of management's corrective action related to unallowable payments to a contractor noted in the prior finding, they reviewed the contractor's questioned costs and supporting documentation and issued a decision letter to a contractor on October 31, 2017. The contractor reimbursed the department for the unallowable costs on November 30, 2017.

The department took timely corrective action in response to the published prior 2016 Single Audit finding. These actions occurred subsequent to the date of the transaction tested in the 2017 Single Audit.

The department will issue a management decision letter to recover the questioned costs in the finding, if necessary.

Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance risks, were assessed on a more programmatic/divisional level.

Finding Number	2017-038
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, G1402TNTANF, G1501TNCCDF, G1502TNTANF G1601TNCCDF, G1602TNTANF, and G1701TNCCDF
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-049
Pass-Through Entity	N/A
Questioned Costs	\$2,901

As noted in the prior audit, the Department of Human Services overpaid child care providers and did not consistently perform case reviews of eligibility determinations and redeterminations, resulting in known federal questioned costs of \$2,901

Background

The Tennessee Department of Human Services (the department) 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, helps Families First (Temporary Assistance for Needy Families) participants, parents transitioning from the Families First program, teen parents, and other individuals obtain child care. To participate in the Child Care Certificate Program, children must be declared eligible by department staff or, for children in foster care or protective services, by the Department of Children's Services' staff. 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 incapable of self-care or under court supervision.

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 the department. The department's Division of Fiscal Services staff use the forms, in conjunction with provider and client eligibility data, to process payments to each provider.

Under CCDF requirements, the department is responsible for establishing child care provider payment rates. The department 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 that exceed minimum licensing standards. Department 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 providers based on each child's payment rate and the number of days the child received child care services.

The department groups 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 our discussion with department staff and review of supporting documentation, field supervisors select samples monthly for each employee in their 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, and the provider's quality rating) 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 staff have assigned the incorrect payment rate to a child.

We reported in the prior audit that the former Child Care Services Director did not ensure that department staff

- performed case reviews of eligibility determinations and redeterminations consistently;
- made payments to child care providers that were calculated and paid in accordance with program requirements; and
- verified that all children over the age of 12 were eligible to receive subsidized child care.

Management concurred in part with the prior finding and agreed with the violations. In their six-month follow-up report to the Comptroller's Office dated September 1, 2017, management stated that the department was developing a tool to measure the accuracy of eligibility determinations and that staff would review the "13 Year Old Notification" report monthly to identify children who do not meet the criteria for continued child care payment assistance. However, the department did not implement any corrective action during fiscal year 2017, and noncompliance continued.

Condition and Cause

In order to determine if the department 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, 2016, through June 30, 2017, and performed three procedures:

1. sampling procedures to determine whether department staff performed case reviews to ensure that eligibility determinations and redeterminations were consistent;
2. sampling procedures to determine whether department staff calculated provider rates and payments in accordance with program requirements; and
3. sampling procedures to determine the appropriateness of payments that department staff made on behalf of individuals over the age of 12.

Based on the results of our testwork, we found that the Child Care Services Director did not ensure that department staff performed case reviews of eligibility determinations and redeterminations consistently. We also found that the Child Care Services Director did not ensure that payments to child care providers were calculated and paid in accordance with program requirements and did not ensure that all children over the age of 12 were eligible to receive subsidized child care, resulting in federal questioned costs of \$2,901.

Internal Controls Over Case Reviews

The department has not established adequate internal controls over CCDF Child Care Certificate Program eligibility determinations. Discussions with program staff revealed that child care specialists do not perform secondary reviews when making initial eligibility determinations and redeterminations. Based on discussion with department program staff, the department uses an employee performance evaluation process as the internal control to ensure eligibility determinations and redeterminations are performed and are appropriate. As part of the performance evaluation process, supervisors of the child care specialists who make the eligibility determinations are required to perform monthly reviews of at least five eligibility determination or redeterminations cases assigned to the employee to ensure the determinations were accurate.

We identified 37 employees who were responsible for conducting eligibility determinations for the Child Care Certificate Program during the scope of our audit. From the population of 37, we selected a random, nonstatistical month for each employee and reviewed the employee's assigned cases to determine if the employee's supervisor performed at least 5 case reviews for the selected month.

Based on our testwork, we noted that for 13 of 37 employees (35%), the supervisors did not perform at least 5 CCDF eligibility determination and/or redetermination case reviews for the month we tested. We noted that, for 5 employees, supervisors did not review any cases for the month selected for testwork; for 1 employee, supervisors reviewed less than 5 cases during the month selected.

We also noted that 7 of the 37 employees were in a supervisory position and had the ability to perform eligibility determinations and redeterminations during the audit period; however, the supervisors' determinations were not reviewed because they were not subject to the evaluation process.

When we discussed the errors with department staff, they acknowledged the problem and indicated that they were still developing a standardized tool for case reviews.

Payments Testwork

From a population of 505,749 payments, totaling \$87,962,158, for the Child Care Certificate Program, which represented payments the department made to child care providers from July 1, 2016, through June 30, 2017, we selected a sample of 60 payments, totaling \$10,125, to determine whether department staff calculated and paid provider payments in accordance with program requirements. Specifically, we performed an independent recalculation of the expected payment amount for each provider for the eligible child based on the child's age, the provider's quality rating, the type of provider, and the other factors the department used to determine the payment

amount. Based on our testwork, we determined that for 4 of 60 payments tested (7%), the department did not ensure that provider payments were calculated and paid in accordance with program requirements. We found that the department paid the providers using incorrect parent co-pay rates. Department staff stated that child care specialists misapplied the state's child care provider payment rates in error because they did not address alerts from TCCMS that required fees to be recalculated when the family's income changed. For 2 of the 4 incorrect payments, the department overpaid the providers, resulting in \$18 in known question costs. For the remaining 2 incorrect payments, the department underpaid the providers, totaling \$16, and we did not question costs for these underpayments.

Age Requirements Analysis

Based on our analysis of payments to child care providers from July 1, 2016, through June 30, 2017, we found that the department paid \$155,315 to providers for individuals who were age 13 and over when the services were provided. We performed testwork to determine if these payments were made on behalf of individuals who met federal age-related exemption requirements and were therefore eligible to participate in the program. From a population of 1,814 payments made on behalf of 66 children who were age 13, we selected a sample of 60 payments. Based on our testwork, we noted that for 1 of 60 payments tested (2%), the child was ineligible to participate in the program. We also tested all 223 payments made on behalf of 15 participants age 14 and over and noted that 3 participants 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 under court supervision. We questioned \$2,883 the department paid to child care providers on behalf of the ineligible individuals.

Department staff stated that the 3 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.

Risk Assessment

We reviewed the department's November 2016 Financial Integrity Act Risk Assessment and determined that management included eligibility 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 it makes overpayments, and this negatively impacts funds available for other providers.

Criteria

Criteria for Internal Controls Over Case Reviews

We included the matter of monthly reviews of eligibility determinations and redeterminations for CCDF cases in this finding because 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. The department has established its own internal policies to ensure it meets federal compliance requirements.

According to the department's Field Supervisor One (FS1) Job Plan,

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 per worker in the unit.

Criteria for Payments Testwork

According to 45 CFR 98.67(a), "Lead Agencies shall expend and account for CCDF funds in accordance with their own laws and procedures for expending and accounting for their own funds."

According to 45 CFR 98.11(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.

Criteria for Age Requirements Analysis

45 CFR 98.20 states,

- (a) 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.

Effect

Unless the department establishes adequate controls and ensures that staff review to ensure CCDF Child Care Certificate Program eligibility determinations are accurate, there is an increased risk that the department will pay child care providers for services rendered to ineligible program participants. Improper application of the state's child care provider payment rate increases the risk of unallowable provider payments. In addition, when the department does not close cases timely, the risk that the department will pay providers for services rendered to ineligible program participants increases.

Questioned Costs

2 CFR 200.516(a) requires the auditors to report known and likely 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 questioned costs of \$2,901 due to incorrect payments to providers and payments paid on behalf of ineligible participants.

Our payments testwork included a review of 60 payments, totaling \$10,125, from a population of 505,749 payments, totaling \$87,962,158, during fiscal year 2017. Our age requirements analysis testwork included a review of 60 payments, totaling \$5,830, for children 13 years old, from a population of 1,814 payments, totaling \$140,877, during fiscal year 2017.

Recommendation

Recommendation for Internal Controls Over Case Reviews

The Commissioner should ensure that the department's internal controls are adequate and are designed to prevent, or detect and correct, provider overpayments, and that the controls are operating effectively. This process should include ensuring that supervisors perform and document each employee's monthly eligibility case reviews, and establishing a review process for the supervisors' case determinations and redeterminations.

Recommendation for Payments Testwork

The department should also consider updating its information system so that the system automatically assigns the correct payment rates for eligible children. If this is not feasible, the department should consider performing periodic data analyses to identify instances in which staff have entered incorrect payment rate data in the system.

Recommendation for Age Requirements Analysis

The Commissioner and the Child Care Services Director should ensure that supervisors review and close cases timely to ensure that the department complies with federal CCDF eligibility requirements, such as compliance with age requirements.

Risk Assessment

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

We concur in part.

Condition A: *Internal Controls Over Case Reviews*

We concur.

The department is modifying the Quality Assurance Case Reading to full automation. On January 11, 2018, the case reading tool was developed and provided to Quality Improvement and Strategic Solution management to be part of the quality assurance reviews. The department, in conjunction with our IT management, will pull monthly samples of cases and disseminate the results to Child Care Certificate Management for review.

Condition B: *Payments Testwork*

We do not concur.

It should be noted that the costs identified in this condition are based on the parent's co-pay rates.

The state auditors noted the following:

For 2 of the 4 incorrect payments, the department overpaid the providers, resulting in \$18 in known question costs. For the remaining 2 incorrect payments, the department underpaid the providers, totaling \$16, and we did not question costs for these underpayments.

The original details of this condition communicated by state auditors to the department on January 10, 2018, contained eight (8) errors, half containing overpayments and the other half underpayments netted together for total questioned costs of \$65.40. The state auditors' methodology was to project the net of questioned costs to determine if the likely questioned costs would exceed \$25,000 in order to determine if the condition should be reported under 2 C.F.R. §200.516(a).

The department responded to the state auditors' preliminary (8) errors with additional information that resulted in the clearing of four of the eight errors by the state auditors on January 19, 2018. The net overpayment for the (4) four remaining errors was overpayments of \$8.00 and \$10.00 and underpayments of (\$6.30) and (\$9.30).

The parent co-pay fees are updated twice annually in TCCMS, at the beginning of the school year and the beginning of summer. The parent co-pay rates would be based on full-time during the summer because school was out. Parent co-pay fees are established for the period of eligibility based on part-time utilization, which represents nine months of the year.

For the 2 overpayments of \$8.00 and \$10.00, the parent fee schedule was applied on the Enrollment Attendance Verification (EAV) for March 12, 2017, through March 25, 2017, and January 1, 2017, through January 31, 2017, respectively. For the \$8.00 overpayment, the child was on Spring Break

and the error was limited to the two-week period the child was out from school. For the \$10.00 overpayment, the child was out for part of the month on Christmas Holidays.

Condition C: *Age Requirements Analysis*

We concur.

In August 2017, a new procedure was implemented to centralize distribution of the Over 13 Flag Report to ensure that any potential errors are addressed in a timely manner.

Risk Assessment

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 November 2016 Financial Integrity Act Risk Assessment risks of non-compliance were assessed by compliance type requirement for the Department as a whole. For the December 2017 Financial Integrity Act Risk Assessment, based on revised F&A guidance, risks were assessed on a more programmatic/divisional level.

Auditor's Comment

Condition B: *Payments Testwork*

Management's comment describes our normal audit process. In order to ensure we have obtained all available evidence and to ensure the accuracy of our final conclusions and report we share our preliminary audit results with management to give them ample opportunity to provide us with any and all information which may resolve the condition. In this case, management ultimately could not provide evidence to resolve the errors noted.

As to the netting of overpayments and underpayments for questioned costs purposes, these overpayments and underpayments involved different subrecipients and different participants; therefore netting was not possible. Had we found overpayments/underpayments for the same subrecipient we certainly would have netted to arrive at the total questioned for a particular subrecipient.

Finding Number	2017-039
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, G1402TNTANF, G1501TNCCDF, G1502TNTANF G1601TNCCDF, G1602TNTANF, G1701TNCCDF
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2016-052
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services program staff did not comply with health and safety requirements for child care providers

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 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, for children in foster care or protective services, by the Department of Children's Services staff. 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 that exceed minimum licensing standards. DHS staff use the criteria in the payment rate schedules to assign a payment rate for each child. When providers submit attendance forms, Fiscal Services staff pay the providers based on each child's payment rate and the number of days the child received child care services.

Under the CCDF Block Grant 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. 45 CFR 98.2 defines a lead agency as the legal entity to which the grant funds are awarded, which is the state. For Tennessee, the grant award documents specifically list DHS 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, reflected in a Memorandum of Agreement. Federal regulations in effect during the audit period did not specify how many site visits 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. DOE staff are

responsible for monitoring the regulated providers and meet certain education requirements by performing one announced and one unannounced site visit per provider per school year. DHS is responsible for monitoring all other providers in the state. At the beginning of the audit period, July 1, 2016, the department's policy required CCDF child care specialists (program evaluators) to perform one announced and two unannounced visits per regulated provider licensing year,³⁷ and complete a child care evaluation form, which includes health and safety checks, for each visit. Both the child care specialist and a provider representative should sign this form to show both parties acknowledge the results of the monitoring visit. DHS management amended its policy, effective November 15, 2016, to raise the minimum number of unannounced visits per year to four visits.

Based on discussion with DHS' CCDF staff, some children who are eligible for CCDF and reside in Tennessee may receive day care services from providers located in other states. If the provider is regulated by another state, CCDF staff collect the licensing information to ensure the provider meets health and safety requirements. If these providers are unregulated, CCDF staff follow the same processes and procedures for unregulated providers located in Tennessee.

We reported in the prior audit finding that

- DHS did not conduct quarterly unannounced visits;
- DOE did not sufficiently follow up on all health and safety violations;
- DHS staff and the unregulated child care providers did not sign the health and safety checklists at all the site visits; and
- DHS did not ensure out-of-state providers met health and safety standards.

DHS concurred in part with the prior finding and stated that it would reemphasize the policy for unannounced visits and would revise the agreement with DOE to reflect Child Care and Development Block Grant requirements. DOE concurred and stated that it would redevelop and improve its documentation. For the current audit, we found that DHS has not made significant improvements, resulting in this repeat finding.

Condition and Cause

Condition A: *Staff did not perform all site visits*

From a population of 505,749 payments to child care providers during fiscal year 2017, we selected a nonstatistical, random sample of 120 payments to providers (60 regulated and 60 unregulated) to obtain reasonable assurance that DHS and DOE were compliant with CCDF health and safety requirements. For each payment, we identified the provider and tested whether DHS' CCDF child care specialists 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' 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 checklist requirements. If we noted any violations, we reviewed

³⁷ A licensing year begins when a child care provider receives its license.

additional documentation to ensure that DHS or DOE staff followed up on the violations in accordance with their respective policies and procedures.

Based on our testwork, we found that DHS did not follow federal regulations and/or internal policies. Since health and safety concerns are critical, we felt it prudent to report all health and safety errors noted in this finding. Even though the actual error rates we noted were low, we believe that even one health and safety violation error could place children at risk. Specifically, we found that for 3 of 60 payments made to 3 regulated providers (5%), DHS staff did not conduct a required unannounced quarterly visit although they were required to do so by internal policy. The Director of Child Care Services and the Assistant Commissioner believed that these errors were not a problem because the intent of the policy was to complete four visits before the end of the licensing year, which could mean that staff performed the visits in close proximity to each other rather than spread across the full year.

Condition B: *Lack of licensing documentation for out-of-state providers*

We identified that DHS paid \$157,548 to 17 child care providers in other states (16 regulated and 1 unregulated) who cared for children who reside in Tennessee. Based on our review, we noted that for 7 of 16 out-of-state regulated providers (44%), DHS staff could not provide documentation to prove they verified the providers were licensed or met the health and safety requirements. Based on discussion with DHS staff, management has not developed a policy that requires staff to ensure out-of-state providers have a license and meet health and safety requirements.

Condition C: *Inadequate written agreement with DOE*

Based on discussion with DHS CCDF staff, we noted that DHS does not have an adequate written agreement with DOE to monitor regulated child care providers that offer certain education components. DHS stated that the Memorandum of Agreement with DOE included requirements for the CCDF program; however, based on our review of the agreement, we noted that it did not specifically mention the Child Care Development Block Grant or CCDF and did not include DOE's responsibility for ensuring health and safety requirements at the providers. Management's comment to the prior audit finding stated that management was in the process of revising the agreement with DOE to reflect CCDF requirements; however, the revisions were not completed and a new agreement was not in place during the audit period. It is critical that all responsibilities between agencies are clearly defined in a written agreement so that errors do not result due to ambiguous agreements. The Director of Child Care Services stated that it was a lengthy process to revise the agreement to include all aspects concerning responsibilities for monitoring, system enhancement requests, and anticipation of long-range requirements. As of February 5, 2018, the Director stated that the agreement had been drafted and was under review by both departments; the Director could not give a timeframe for when the updated agreement would be approved.

Condition D: *Risk assessment*

We reviewed DHS' November 2016 Financial Integrity Act Risk Assessment and determined that management included the health and safety requirements in its annual risk assessment; however, management assessed the impact of occurrence as medium 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. DHS is in violation of federal regulations when it does not verify health and safety. Additionally, when DHS' providers are not in compliance with health and safety requirements, children in the providers' care are at risk.

Criteria

Criteria for All Conditions

“Appendix I: Requirements,” of the *Standards for Internal Control in the Federal Government* states that, “Management should design control activities to achieve objectives and respond to risks” and “Management should implement control activities through policies.”

Criteria for Condition C

DHS is the lead agency and is responsible for administering the program. According to 45 CFR 98.11,

- (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.

Condition A and Condition B

The health and safety requirements for regulated and unregulated child care providers are found in 45 CFR 98.41(a), which states that

- (a) 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 (appropriate to provider setting and age of children served) that are designed, implemented, and enforced to protect the health and safety of children. Such requirements must be applicable to child care providers of services for which assistance is provided under this part. Such requirements, which are subject to monitoring pursuant to §98.42, shall:
 - (1) Include health and safety topics.

DHS has additional policies for monitoring the health and safety of regulated child care providers. Specifically, according to DHS' Administrative Policies and Procedures 13.02, “Minimum

Required Monitoring Visits,” which was in effect from the beginning of the audit period, July 1, 2016, through November 14, 2016,

Child Care Centers, Group Child 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.

However, during the audit period, the procedure was superseded effective November 15, 2016, and required additional visits, as detailed below:

- (1) Child Care Centers, Group Child Care Homes, Family Child Care Homes, and Drop-in Child Care Centers are required to receive announced and unannounced visits. The following are the minimum visitation frequencies:
 - (a) All agencies must receive a minimum of one (1) announced evaluation visit during the licensing year. Exception: Agencies on a temporary license must receive an additional announced visit for the purpose of providing technical assistance.
 - (b) Unannounced visits are calculated based upon the agency’s licensing year. The minimum number of unannounced visits required to be conducted on each agency every licensing year is determined according to the agency’s star rating. See Collateral Document 13.1[1]-16.00 Minimum Required Unannounced Monitoring Visits. [See below.]
- (4) Program Evaluators (PEs) must provide a schedule to their supervisor on announced and unannounced visits. It is the supervisor’s responsibility to ensure that the announced annual re-evaluation visits are scheduled two (2) months prior to the expiration date and unannounced visits are scheduled and conducted every other month and no less than quarterly, based on an agency’s licensing year and star rating.

According to DHS’ Collateral Document, “Minimum Required Unannounced Monitoring Visits,” ID# 13.11-16.00,

Unannounced visits are calculated based upon the agency’s licensing year. The minimum number of unannounced visits required to be conducted on each agency every licensing year is determined according to the agency’s star rating as follows:

Type of Agency	Full-year Programs	9- or 10-month Programs
New Agencies; Agencies Eligible for Zero (0) Stars; or Agencies Declining to Participate	Six (6) unannounced agency visits per licensing year	Four (4) unannounced agency visits per licensing year
Agencies Eligible for One (1) Star	Five (5) unannounced agency visits per licensing year	Four (4) unannounced agency visits per licensing year

Agencies Eligible for Two (2) Stars; or Three (3) Stars	Four (4) unannounced agency visits per licensing year	Three (3) unannounced agency visits per licensing year
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Effect

Without performing all site visits as required by federal requirements and internal policy, the Director of Child Care Services, the Assistant Commissioner, and the Child Care Certificate Program Director have approved child care providers without ensuring critical health and safety requirements are in place, potentially subjecting children in the providers' care to unacceptable health and safety risks. Furthermore, by not verifying if out-of-state providers are licensed, the Director of Child Care Services, the Assistant Commissioner, and the Child Care Certificate Program Director have approved providers who may not have met the requirements necessary to legally provide child care services. Also, by not having an updated written agreement with DOE, the risk of roles and responsibilities not meeting the program requirements increases.

Recommendation

DHS management should ensure that complete child care provider site visits, which include health and safety checks, in accordance with federal regulations and internal policy. Finally, management should document its verification of out-of-state providers' compliance with licensing and health and safety requirements, and finalize the written agreement with DOE.

The Commissioner should assess all significant risks, including the risks noted in this finding, in DHS' 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

Condition A: *Staff did not perform all site visits*

We concur.

Based on the review period tested by the audit team, we concur that the site visit for three (3) providers was not performed "... no less than quarterly, based on an agency's licensing year and star rating," as listed in DHS internal policy, not federal regulation.

However, we do not concur that not performing the site visits at least quarterly did not ensure "critical health and safety requirements are in place, potentially subjecting children in the providers' care to unacceptable health and safety risks."

We complied with DHS' Collateral Document, "Minimum Required Unannounced Monitoring Visits," ID# 13.11-16.00, for the three (3) providers noted in this finding. We performed the required four (4) unannounced agency visits per licensing year.

A change to DHS' Administrative Policies and Procedures 13.02, "Minimum Required Monitoring Visits," will be revised and implemented by June 30, 2018 to align the policy with the associated collateral document.

Condition B: *Lack of licensing documentation for out-of-state providers*

We concur.

Centralized controls have been implemented to ensure annual licenses for each out-of-state provider are verified.

All out of state providers are in a control group under CCCP program management in TLCS as of November 2017. All licenses for current licensing year per respective provider have been received. On-going, monthly reports will be pulled for expiring licenses. The regulatory agency for that State will be contacted to determine if the program is in good standing with all requirements and the updated license will be requested. This information will be documented in TLCS.

Condition C: *Inadequate written agreement with DOE*

We concur.

We are working on an agreement in partnership with DOE to include requirements and clearly defined responsibilities.

Finding Number	2017-040
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, G1402TNTANF, G1501TNCCDF, G1502TNTANF
Identification Number	G1601TNCCDF, G1602TNTANF, and G1701TNCCDF
Federal Award Year	2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2016-048
Pass-Through Entity	N/A
Questioned Costs	\$364,789

As noted in the prior two audits, the Department of Human Services has not ensured controls were effective to recover overpayments from child care providers identified by the department's Audit Services Unit, resulting in questioned costs of \$364,789

Background

The state's Child Care Certificate Program, which is funded by the U.S. Department of Health and Human Services' Child Care and Development Fund (CCDF), assists Families First participants, parents transitioning off 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, for children in foster care or protective services, by Department of Children's Services staff. The department 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 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 that exceed minimum licensing standards. Department staff use the criteria in the payment rate schedules to assign a payment rate for each child in the program. When providers submit attendance forms, the department's Fiscal Services staff pay the providers based on each child's payment rate and the number of days the child was in the provider's care.

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 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 provider's home. Regulated providers can have multiple site locations under the same management, while unregulated providers have only one site.

Audit Services' Review Process

The department's Audit Services staff are responsible for monitoring child care providers via the Child Care Certificate Program. Audit Services staff use two methods to select child care providers

for monitoring under the Child Care Certificate Program: selections and referrals. The selection method involves review staff selecting providers that

- have an approved CACFP application;
- were monitored onsite for CACFP requirements (typically every three years);
- received a significant deficiency in the prior year for CACFP noncompliance; and/or
- are new agencies with over five sites.

Any CCDF provider that is selected for review because they are also approved as a CACFP provider is also subject to a second review to determine compliance with the CCDF program requirements. Review staff also select providers to monitor based on active referrals through the complaint process.

Once providers are selected, Audit Services staff follow two monitoring processes to evaluate providers for CCDF program requirements, onsite visits and desk reviews. Audit Services staff perform site visits for all licensed providers and desk reviews for all unregulated providers. The onsite review procedures include reviewing and analyzing provider payment supporting documentation to determine compliance with federal regulations and then issuing a monitoring report to the provider. For desk reviews, Audit Services staff procedures involve researching to determine the nature of the files available, requesting documents from the provider for review, and issuing a final monitoring report to the provider. Based on the nature of a complaint referral, Audit Services staff may elect to conduct an onsite visit for an unregulated provider in place of a desk review. Audit Services staff explained that the department only used this method for selecting providers for review for fiscal year 2017, and it may change moving forward.

Once either type of review is complete, Audit Services staff send an onsite review letter to the child care provider and to other department staff within the Child Care Services, Program Integrity, and Fiscal Services units for proper follow-up. Providers are required to submit to the Child Care Certificate Program Manager a corrective action plan that outlines strategies to correct any deficiencies identified in the report and to arrange a repayment plan for any overpayments as needed. The corrective action plan is due within 15 days from the date of the onsite review letter. Providers are notified of the consequences of not repaying overpayments in the provider contract and in the review letters. These consequences include the department withholding any future child care payments until the overpayments are recovered.

Garnishment Process

When a monitoring report identifies an overpayment, Fiscal Services receives an email from DHS program staff that contains the report, information on the amount of the overpayment, and a payment plan that has been set up with the child care provider, if applicable. The payment plan contains the provider's Edison (the state's accounting system) information, as well as the start date of when child care payments to the provider will be garnished. When that start date arrives, Fiscal Services staff create an Excel spreadsheet for each provider that owes funds to the department to track the repayments as they occur in Edison. Staff use a control group document to upload information to Edison that prompts the system to automatically initiate garnishments on all provider payments for providers in the control group.

Intermittently, Fiscal Services communicates with the program staff on the status of repayment plans to ensure garnishments are still occurring. When a child care provider fully repays the department, this is noted on the repayment tracking spreadsheet for that provider, and the provider is removed from the Edison control group to stop future garnishments.

Prior-year Findings

As noted in the prior two audits, management did not ensure overpayments identified by Audit Services were recovered, and the department continued to pay child care providers who owed the department a refund for child care services.

Management concurred in part with the finding in the audit for the year ended June 30, 2015 (Finding 2015-044), and stated,

The department agrees with the questioned costs noted in the finding and we are in the process of recouping.

The department does not agree we were not timely initiating collections from two of the three providers.

The finding was repeated in the audit for the year ended June 30, 2016 (Finding 2016-048), and management again concurred in part with the finding. Management's response stated,

The Department concurs that the Child Care Certificate Program internal controls need to be strengthened to ensure overpayments identified in the Department's EPR [Audit Services] 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.

In response to the prior audit finding, management stated that it would create a tracking process for overpayments, establish a new policy regarding the treatment of overpayments, and ensure monthly communication between program and Fiscal Services staff to further mitigate the risk of error in recovering CCDF overpayments to child care providers. However, even after program management established a tracking process, we continued to find issues with collecting overpayments to providers. We found the following noncompliance.

Condition

During initial testing, we noted that when DHS monitoring staff identified overpayments, the department did not follow the garnishment process to pursue overpayments. The Accounting Director informed us that the department was not able to actively pursue garnishments for all

overpayments because Fiscal Services staff³⁸ and DHS program staff lacked sufficient documentation to substantiate the original overpayments identified during the Audit Services reviews.

Current Fiscal Services staff took over fiscal operations in April 2016, and, in evaluating the overpayment/garnishment process, they determined that, in some cases, the department's prior fiscal staff had garnished some CCDF providers, even though they lacked sufficient documentation to support the amount garnished. Based on our current discussions with the Fiscal Director, we found the department is "in the process of obtaining monitoring reports from archives in an attempt to substantiate prior year balance/garnishments. Once we receive and evaluate the old monitoring reports, we will reestablish garnishments or reverse those garnishments we cannot substantiate."

Current Testwork Results

We analyzed the entire population of 134 child care providers with an outstanding overpayment balance with the department as of June 30, 2017. Based on our analysis, we found that the Fiscal Director did not properly recover overpayments, totaling \$364,789, from 112 of the 134 providers (84%). Also, we found that for those 112 providers, the Fiscal Director did not take appropriate action to reclaim funds as follows:

- For 60 of the 112 providers (54%), we found that the providers had closed all sites that were receiving CCDF funding prior to or during our audit period, even though the providers still owed the department refunds for overpayments of \$15,732. We asked for evidence that the department pursued collection efforts, but the department could not provide documentation that it had pursued legal action to reclaim the funds. The department was inconsistent with garnishing these providers before they closed; now that they have closed, future recovery of the overpayments will be difficult. We questioned \$15,732 for these providers.
- Of the 112 providers, 52 (46%) still had at least one site open during our audit period, and 43 received child care payments during our audit period. Of these 43 providers, Fiscal Services staff only garnished payments to 3 of the providers. We questioned \$349,057 for these providers.

Risk Assessment

We reviewed the department's November 2016 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 it does not recover overpayments, and this negatively impacts funds available for other child care providers. Additionally, when the department does not ensure

³⁸ On April 11, 2016, the Department of Finance and Administration assumed responsibility for performing the Department of Human Services' fiscal functions, including pursuing overpaid funds. Therefore, the Fiscal Services staff referenced in this finding are employees within the Department of Finance and Administration.

providers implement corrective action, including recovering overpayments of federal funds, the department's risk of noncompliance, errors, fraud, waste, and abuse is increased.

Criteria

According to clauses C.6, C.7, and C.8 in the Authorized Provider Contract, the department has the authority to recover overpayments by means of payment reductions and deductions:

C.6 Payment Reductions. The Contractor'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.7 Deductions. The State reserves the right to deduct amounts owed to the state of Tennessee which are or shall become due and payable to the Contractor under this or any Contract between the Contractor and the State of Tennessee.

C.8 Methods of Collection of Overpayments. Contractor 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 Contractor understands and agrees to the following child care certificate repayment and offset procedures for Overpayments:
 - i. Lump Sum. The Contractor 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 Contractor 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 Contractor 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 Contractors/Owners with Debts - A Contractor or owner of a Contractor 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.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book), Section 10.01 on design of internal controls, states,

Management should design control activities to achieve objectives and respond to risks.

Section 12.01 of the Green Book, on implementation of internal controls, states,

Management should implement control activities through policies.

Cause

The department had not established sufficient controls and processes to track and collect child care provider overpayments, resulting in missed opportunities to recover outstanding refunds due from overpayments.

Effect

When the Fiscal Director does not establish an adequate internal control process to track and collect overpayments, as well as to escalate to legal action when necessary, the risk is increased that the department will not recoup federal funds that have been improperly paid to CCDF providers for known questioned and disallowed costs.

Questioned Costs

Total questioned costs for overpayments identified and not collected were \$364,789.

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 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.

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 Commissioner and the Fiscal Director should establish controls to ensure the department maintains documentation to support overpayments; tracks and recovers overpayments identified by Audit Services staff; and adjusts future payments to child care providers to recover outstanding debts owed the department due to overpayments. The Commissioner and the Fiscal Director should aggressively pursue the recovery of \$364,789 from the providers for the issues noted in the finding. The Commissioner and the Fiscal Director should also ensure that staff report when a provider closes to the Office of the Inspector General so that legal action can be pursued.

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

We concur in part.

The department concurs that internal control processes and procedures need to be strengthened as they pertain to child care provider overpayments. A new policy was developed that became effective on January 1, 2018; and a new tracking process for child care recoupments has been designed and will be operational by May 31, 2018. Additionally, fiscal staff were reorganized into functional areas on October 1, 2017. That will, among other things, result in the development of specialists in areas such as provider overpayments. This will mitigate errors, resulting in consistent and appropriate action being taken in a timely manner.

The department does not concur with the questioned costs. As noted in the finding, fiscal services has evaluated the prior years' overpayment spreadsheet and determined that many of the items listed were not supported by the department's External Program Review reports. Management does not believe it is appropriate to attempt to collect (either through garnishment or other means) amounts labeled as overpayments that it has been unable to validate or support.

It is noted that following receipt of the prior year's Single Audit finding 2016-048 in which the state auditors stated, *"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,"* management requested the supporting documentation that the auditors reviewed to validate the propriety of the overpayment amounts. The request never received a response, so it is unclear whether the state auditors validated that the amounts labeled on a spreadsheet as overpayments represented actual overpayments.

Management will continue its efforts to validate prior year amounts labeled as overpayments and initiate collection efforts upon validation. It is noted that all of the costs questioned appear to be prior year amounts that have not been validated, or amounts questioned in last year's Single Audit finding. One overpayment from the fiscal year under the audit was included in the documentation provided by the state auditors in support of this finding; however, there were no associated questioned costs.

Auditor's Comment

In an audit, we obtain and test the documentation management provides. Management is responsible to provide us with complete and accurate data and/or fully inform us of any potential data integrity issues. During our audit fieldwork and during finding preparation, management had the opportunity to provide us with evidence and/or clear information for any overpayments they believed were unsubstantiated and thus uncollectible. Our questioned costs are improper payments paid to child care providers during the fiscal 2017 year and were not duplicated from the prior audit.

Finding Number	2017-041
CFDA Number	17.225 and 84.002
Program Name	Unemployment Insurance and Adult Education – Basic Grants to States
Federal Agency	Department of Labor and Department of Education
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	UI-21127-11-55-A-47, UI-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29869-17-55-A-47, UI-29924-17-55-A-47, UI-30246-17-60-A-47, FAC BENEFITS & UI Admin, EUC, Fed EB, UCFE, UCX, TUC-State Expenditures, V002A140043, V002A150043, V002A160043
Federal Award Year	2010 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed and Allowable Cost/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development lacks written procedures for key Adult Education and Unemployment Insurance expenditure controls

Background

The federal Adult Education – Basic Grants to States and Unemployment Insurance programs are administered by the Division of Adult Education and the Division of Unemployment Insurance, respectively, within the Department of Labor and Workforce Development (the department). The Division of Adult Education supplies grants to eligible agencies (subrecipients) to provide adult education and literacy services, and the Unemployment Insurance program ensures the economic security of workers who lose their jobs through no fault of their own via unemployment claims throughout the state.

Condition

We determined that the department had no formal written procedures for authorized individuals' review and approval of four types of program costs—a key control. Since the department uses the indirect cost rate to approve indirect costs, we included the proposal in our review of program costs. See **Table 1**.

Table 1
List of Program Costs and Authorized Approvers Without Written Procedures

Program Costs	Authorized to Approve
Adult Education divisional expenditures	Various members of division management
Adult Education subrecipient expenditures	Director of Fiscal Services
Unemployment Insurance expenditures	Various program staff
Departmental indirect cost rate proposal ³⁹	Fiscal Services Administrator ⁴⁰

Source: Discussion with authorized approvers.

Formal written procedures are important because they describe how an entity ensures compliance with federal requirements.

Given the problems identified during our fieldwork, we also reviewed the department's December 2016 Financial Integrity Act Risk Assessment and determined that management's risk assessment did not address the risk that the processes to ensure the allowability of costs were documented in written procedures.

Criteria

According to Title 2, *Code of Federal Regulations*, Part 200, Section 302(b), the department's financial management system must include written procedures for determining the allowability of costs.

Cause

The Adult Education Director of Fiscal Services stated that staff knew the correct steps to take in the process of reviewing and approving divisional expenditures, but the process was just not documented. For subrecipient expenditures, she noted that it never occurred to her to have her review and approval formally documented in procedures. She did provide us with a written copy of her job duties, drafted in June 2017, that outlines her review and approval; however, this document does not constitute a formal procedure. We tested the review and approval of 60 randomly selected expenditure transactions and all 29 individually significant expenditures occurring from July 1, 2016, through June 30, 2017, and did not note any problems.

The Procurement Supervisor, who is responsible for entering requests for Unemployment Insurance purchases into Edison, commented that the department did not have any written procedures to ensure the allowability of Unemployment Insurance expenditures.

³⁹ This proposal includes the costs used to establish indirect costs rates for a particular fiscal year. According to the Controller, he and the Accounting Manager work together to assemble the indirect cost rate proposal based on a federal checklist. Following their preparation, the proposal must be approved by a duly authorized signer for the Department of Labor and Workforce Development. The Fiscal Services Administrator with the Department of Finance and Administration serves in that capacity. The state then submits a proposal packet to the U.S. Department of Labor (USDOL) for approval. The Controller further noted that in the proposal packet transmitted to USDOL, both he and the Accounting Manager are listed as key contacts on the cover letter.

⁴⁰ Per executive order, the Department of Labor and Workforce Development has an agreement that the Department of Finance and Administration will manage and operate its financial accounting and reporting.

Based on discussion with the Controller, the department has a cost policy statement, included in the indirect cost rate proposal packet, that details specifically which items are allowable and unallowable for indirect costs. The Controller added that fiscal's preparation and USDOL's approval of the proposal are noted as key controls in the Department of Finance and Administration's risk assessment. We maintain, however, that entity management effects key controls. Specifically, the Committee of Sponsoring Organizations of the Treadway Commission defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations."

Effect

The department might approve an unallowable cost unless clearly written procedures are in place.

Recommendation

The Commissioner should ensure that the department has sufficient written procedures and that controls are in place to ensure the department approves only allowable costs, as required by federal regulations.

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

Management's Comment

Department of Labor and Workforce Development

We concur in part.

The auditors noted no problems with allowable expenditures in either division. Also, the finding noted no problems with either division's processes. Although there were no problems noted in actual expenditures or the current processes, a written policy documenting who reviews and what determines allowable expenditures will be drafted by mid-March 2018.

Many of the divisional expenditures are already governed by other state policies. For the two specifically mentioned divisions, the majority of their expenditures are in four categories: employee salaries and benefits, travel, procurements, and payments to subrecipients.

The Department of Human Resources has issued the state's *Time and Attendance Manual*, which provides guidance regarding employees' recording of time worked; the Department of Finance and Administration has issued the state's *Comprehensive Travel Regulations*; and the Department of General Services controls the state's procurement policies.

Unemployment Insurance does not have subrecipients, while the Adult Education Division has subrecipients. The AE subrecipients were informed of allowable expenditures in their grant agreements/contracts.

Also in August 2017, the Adult Education Division issued the *Adult Education Manual*, which describes allowable expenditures at the subrecipient level. Before the end of March 2018, both divisions will draft a policy describing who is responsible for reviewing expenditures and how expenditure allowability is determined.

Department of Finance and Administration

We concur.

While the department believes that appropriate procedures were and are in place for determining the allowability of costs in accordance with 2 CFR, Part 200, Subpart E, the department agrees that the documentation of these procedures can be improved. The Department of Finance and Administration will work collaboratively with the Department of Labor and Workforce Development to ensure that by the end of June 2018, the procedures performed by its staff (in the management and operation of the Department of Labor and Workforce Development's accounting and financial reporting), that are associated to the determination of the allowability of cost, are formalized in written form. This will include the drafting (in accordance with 2 CFR 200.302(b)(7)) of additional procedures related to the indirect cost rate proposal that supplement and complement the cost policy statement submitted to USDOL.

Finding Number	2017-042
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	V002A140043, V002A150043, V002A160043
Federal Award Year	2013 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Division of Adult Education did not ensure that its subrecipients determined that students were eligible prior to allowing them to participate in the program

Background

The Adult Education – Basic Grants to States program administered by the Division of Adult Education within the Department of Labor and Workforce Development provides grants to eight eligible subrecipients that offer adult education and literacy services. These grants help adults become literate and 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 a secondary school education. The division passes funds through to subrecipients that determine students’ eligibility and provide services in the form of adult education classes.

Condition

From the population of 21,979 students who applied to enroll in the Adult Education program from July 1, 2016, through June 30, 2017, we tested a nonstatistical, random sample of 60 students for compliance with federal eligibility requirements. Our testwork disclosed that two subrecipients enrolled 3 of these 60 students (5%) in program services without obtaining the required documentation verifying the students’ age and identity.

Criteria

According to Title 29, *United States Code*, Section 3272(4),

The term “eligible individual” means an individual—

- (A) who has attained 16 years of age;
- (B) who is not enrolled or required to be enrolled in secondary school under State law;
and
- (C) who—

- (i) is basic skills deficient;
- (ii) does not have a secondary school diploma or its recognized equivalent, and has not achieved an equivalent level of education; or
- (iii) is an English language learner.

The *Tennessee Adult Education Manual* states that individuals' registration documentation should include a copy of official identification or date of birth verification documents. The manual defines this documentation as "Copy of ID, Baptismal Record, Birth Certificate, DD-214, Report of Transfer or Discharge paper (TX/DC), Driver's License, Federal, state or local identification card, Passport, Social Service Records, School Records, Work Permit, Cross match with Department of Vital Statistics, or Tribal Records."

Cause

The three potentially ineligible students were enrolled by two of the eight subrecipients. The coordinator of one subrecipient explained that staff had allowed the students to enroll and begin taking classes while waiting for the students to provide documentation verifying their identity. These students ceased attending classes prior to providing the required documentation. The coordinator of the other subrecipient simply noted that staff did not obtain the required documentation.

The Division of Adult Education's Director of Performance and Compliance told us that prior to enrolling students in classes, subrecipients were required to obtain all necessary documentation. He added that the division's subrecipient monitoring actively checked to ensure that students were eligible and had identified eligibility documentation issues. Based on our review of fiscal year 2017 subrecipient monitoring reports, the division cited one of the two subrecipients for inadequate eligibility documentation but did not specifically test the files of the three potentially ineligible students we identified. We tested the division's subrecipient monitoring process and concluded that the process was adequate to identify subrecipient noncompliance with federal and state regulations.

Effect

Subrecipients cannot be assured that students are eligible for Adult Education services if subrecipients do not obtain the required documentation. If ineligible individuals are provided services, the intended purpose of the program is not followed and the amount of resources that can be offered to eligible individuals may be reduced.

Questioned Cost Analysis

We were unable to determine the known or potential questioned costs associated with this issue because the division does not track direct costs expended on individual students. As a result, neither we nor the department could quantify the value of services provided to the students noted.

Recommendation

The Adult Education Administrator should instruct subrecipient coordinators to ensure that staff review and retain all necessary documents prior to enrolling the student in classes. The Administrator should ensure that subrecipients take appropriate corrective action when subrecipient monitoring finds student records with incomplete documentation.

Management's Comment

We concur.

The auditors noted that the monitoring of Adult Education subrecipients was sufficient and that the performed monitoring noted inadequate eligibility documentation. So, the corrective action plan process is being followed for any deficiencies noted in monitoring.

Also, Adult Education staff perform regular visits with the subrecipients.

Lastly, the subrecipients have been informed to obtain the necessary documents and to retain a copy of the documentation.

Finding Number	2017-043
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 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-061
Pass-Through Entity	N/A
Questioned Costs	FY 2017: \$159,437 FY 2018: \$ 33,909

The Department of Labor and Workforce Development’s key control for detecting fraudulent unemployment claims was ineffective for the sixth consecutive year, resulting in the inability to detect and correct improper payments to state employees, a deceased individual, state inmates, individuals with unverified identities, and other ineligible claimants

Background

The Department of Labor and Workforce Development (the department) administers the Unemployment Insurance (UI) program to provide benefits to eligible workers who have lost their jobs through no fault of their own. The department is responsible for determining eligibility and disqualification provisions, as required by Tennessee Employment Security laws and regulations. To detect and reduce improper payments, the department independently verifies claimants’ eligibility by conducting cross-matches of information provided by claimants to internal and third-party datasets. We describe the department’s cross-matches in **Table 1**.

Table 1

Unemployment Insurance Cross-matches

Cross-match Name	Description
Identity Verification	Real-time cross-match with Social Security Administration records to verify the accuracy of the name, Social Security number, and date of birth the claimant supplied when filing for UI benefits.
State Employees	Bi-monthly cross-match with state payroll records to ensure that active state employees do not receive UI benefits.
Vital Statistics	Weekly cross-match with the Department of Health's death records to ensure individuals' UI benefits stop after their death.
State Inmates	Weekly cross-match with the Department of Correction's inmate data to ensure individuals do not receive UI benefits while they are incarcerated and therefore unable to seek employment.
Tennessee Wages	Quarterly cross-match with the department's employer wage records to identify individuals who claimed UI benefits while earning wages in Tennessee.
Interstate Wages	Quarterly cross-match with other state workforce agencies' employer wage records to identify individuals who claimed UI benefits in Tennessee while earning wages in another state.
New Hires	Weekly cross-match with the National Directory of New Hires to identify individuals who continued claiming UI benefits after securing new employment.
Fictitious Employers	Monthly cross-match with the department's employer wage and premium records to identify claims linked to fake employers created to facilitate fraudulent claims for UI benefits.

Department staff investigate 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.

In order for staff to use the cross-matches as an effective control for detecting fraudulent unemployment claims, the crossmatches must be programmed correctly, reviewed properly, and acted on timely to determine if an overpayment has occurred or if no further action is required. Since 2012, we have identified the following deficiencies with the department's cross-matches in our *Single Audit Report*:

- In 2012, 2013, and 2014, we reported that the department's cross-matches had not identified individuals receiving UI benefits who were simultaneously employed by the state, deceased, or incarcerated. We also noted that cross-matches to validate individuals' identities through the Social Security Administration were not always effective, resulting in payments to unverified individuals.

- In 2015, we reported that the department's state inmate cross-match was still not functioning properly, and the department continued to issue payments to individuals with unverified identities.
- In 2016, we reported that we were unable to conclude whether the department had corrected previously reported cross-match deficiencies. In May 2016, the department implemented a new UI information system to replace its legacy mainframe-based system. Department management was unable to provide us with a reliable benefits file from the new system to use for our independent cross-matches for state employees, deceased persons, and state inmates. We also reported that the department had not implemented Tennessee and interstate wage cross-matches in the new system.

Condition

Department management supplied us with a file of individuals who received UI benefits during the audit period July 1, 2016, through June 30, 2017. We performed our own cross-matches and analytical procedures by comparing this file to populations of state employees, deceased persons (vital statistics), and state inmates to determine if the department's cross-matches were effective. We also reviewed proof of identity documentation collected from claimants whose identities the department had been unable to verify through the cross-match with the Social Security Administration.

We found deficiencies with the state employee, vital statistics, and state inmate cross-matches. Furthermore, we found that the department did not verify the identities of all benefit recipients before they received UI benefits. We also found the department still had not implemented Tennessee wages, interstate wages, or fictitious employers cross-matches in the new system.

State Employees

Our cross-match of the fiscal year 2017 benefits file to state payroll records identified 37 instances where the department did not properly establish overpayments for state employees who inappropriately received UI benefits. We analyzed these 37 instances and determined that

- the department's cross-match did not identify 20 state employees;
- the department did not establish overpayments for 14 state employees identified in cross-matches; and
- the department did not establish correct overpayment amounts for 3 state employees identified in cross-matches.

Based on our analytical procedures, we determined that the **potential overpayments**⁴¹ to state employees totaled \$16,510.

⁴¹ Cross-match results represent possible benefit overpayments. The department must fully investigate each cross-match result and, if the individual is determined to be ineligible for benefits, establish an overpayment.

Vital Statistics

Our cross-match of the fiscal year 2017 benefits file to the Department of Health's vital statistics identified one instance where the department paid benefits to a deceased individual. Although the individual died six months prior to the claim's filing, the department's vital statistics cross-match did not detect this claim. Furthermore, despite receiving a copy of the individual's death certificate, the department issued six payments before disqualifying the claim and identifying it as identity theft by an unknown perpetrator.

Based on our analytical procedures, the department paid a total of \$1,925 in improper payments to a deceased individual.

State Inmates

Our cross-match of the fiscal year 2017 benefits file to the Department of Correction's inmate population data identified 14 instances where the department did not properly establish overpayments for claimants who received UI benefits while incarcerated. We analyzed these 14 instances and determined that

- the department's cross-match did not identify 5 state inmates;
- the department did not establish overpayments for 4 state inmates identified in cross-matches; and
- the department did not establish correct overpayment amounts for 5 state inmates identified in cross-matches.

Based on our analytical procedures, we determined that the **potential overpayments** to state inmates totaled \$15,884.

Identity Verification

We obtained the population of 103 claimants who initially failed the department's identity verification cross-match with the Social Security Administration, but who collected UI benefits on subsequent claims after providing proof of identification to the department. Based on our review of the proof of identification, we found documentation deficiencies for 35 of 103 (34%) claimants. Specifically, we noted that

- the department did not retain proof of identity documentation for 8 claimants;
- department staff accepted inadequate proof of identity (such as non-government-issued documentation) for 13 claimants; and
- department staff accepted identification that did not match the claimant's name for 14 claimants.

Due to the missing or inadequate documentation, we concluded that we could not be sure the department properly verified these claimants' identities. Based on our analytical procedures, we determined that the **potential overpayments** to unverified claimants totaled \$159,027— \$125,118 for fiscal year 2017 and \$33,909 for fiscal year 2018.

Tennessee and Interstate Wages

In our 2016 *Single Audit Report*, we reported that management had not implemented cross-match procedures in the department's new UI information system to identify individuals who improperly collected benefits while earning wages in Tennessee or another state. We found that the department still lacked a Tennessee wages cross-match and an interstate wages cross-match. As of December 21, 2017, the department's most recent wage cross-match was executed in the legacy mainframe based on benefits data and wage reports for the quarter ending March 31, 2016.

Fictitious Employers

Since May 2016, the department has lacked a process to detect fictitious employer accounts created to facilitate fraudulent claims for UI benefits. Prior to May 2016, management generated a monthly fictitious employers cross-match in the department's legacy mainframe system. The cross-match returned claims linked to businesses with fictitious employer red flags.⁴² The Director of UI Integrity analyzed these reports to identify claims requiring further investigation. The department retired the mainframe and launched a new UI information system in May 2016 but did not implement a fictitious employers cross-match in that system. Based on follow-up discussion with management, the department implemented a fictitious employers cross-match in the new system on January 26, 2018.

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*, Part 97, Section 20(a),

A state must expand [sic] and account for grant funds in accordance with 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.

Additionally, 29 CFR 99.300 establishes,

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.

⁴² Fictitious employer red flags include businesses reporting fewer than 10 employees; businesses with minimal history of paying unemployment taxes to the state; and businesses with out-of-state or post office box addresses.

State Employees

Section 50-7-211(a), *Tennessee Code Annotated*, states,

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,

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.

Fictitious Employers

The U.S. Department of Labor’s Office of Inspector General issued an investigative advisory report, *Weaknesses Contributing to Fraud in the Unemployment Insurance Program*, on July 24, 2015. The report identified fictitious employer fraud as one of four main fraudulent schemes related to the UI system.

As stated in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*, best practices include assessing and responding to fraud risks. According to Principle 8, “Assess Fraud Risks,”

8.02 Management considers the types of fraud that can occur within the entity to provide a basis for identifying fraud risks. Types of fraud are as follows . . .

- **Misappropriation of assets** – Theft of an entity’s assets. This could include theft of property, embezzlement of receipts, or fraudulent payments. . . .

8.06 Management analyzes and responds to identified fraud risks so that they are effectively mitigated.

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.

Identity Verification

Section 1137(a)(1) of the Social Security Act states,

The State shall require, as a condition of eligibility for benefits . . . that each applicant for or recipient of benefits under that program furnish to the State his social security account number (or numbers, if he has more than one such number), and the State shall utilize such account numbers in the administration of that program so as to enable the association of the records pertaining to the applicant or recipient with his account number.

Section 4-58-103(a), *Tennessee Code Annotated*, states,

Except where prohibited by federal law, every state governmental entity and local health department shall verify that each applicant eighteen (18) years of age or older, who applies for a federal, state or local public benefit from the entity or local health department, is a United States citizen or lawfully present in the United States in the manner provided in this chapter.

Cause

State Employees, Vital Statistics, and State Inmates

Until May 2016, the department used a mainframe-based legacy system to process UI claims and run cross-matches. Although we cited deficiencies with these cross-matches in our *Single Audit Reports* dating back to 2012, the Director of UI Integrity pointed out, and we agreed, that the department's cross-matches showed increasing reliability and precision from 2012 to 2015.⁴³ Replacing the mainframe with a new UI information system in May 2016 required the department to re-code its cross-matches in the new system. The Director of UI Integrity stated that the transition to the new system may have caused the loss or alteration of the business rules previously used in the mainframe state employees, vital statistics, and state inmates cross-matches. Since the new system's implementation, the Director of UI Integrity has worked with the system vendor to identify ways to improve the accuracy and reliability of cross-match results.

⁴³ The amount of improper payments due to deficient cross-matches declined from \$138,856 in our 2012 *Single Audit Report* to \$21,112 in our 2015 *Single Audit Report*.

Our state employees cross-match results included 17 instances included on the department's own cross-match, but department staff either did not establish an overpayment or established an overpayment in the incorrect amount. In performing our cross-match, we used Edison, the state's enterprise resource planning system, to verify employment status and earnings information. The Director of UI Integrity explained that department staff who investigate these cross-matches do not have sufficient security permissions in Edison and must rely on other state agencies' human resources personnel to provide this information. State agencies did not always provide the department with timely, accurate information. As a result, department staff erroneously concluded that UI benefit payments to a state employee were proper.

Likewise, during our audit period the department relied on correctional facilities to confirm the incarceration status of individuals on the state inmate cross-match. Correctional facility employees did not always provide accurate information, causing department staff to erroneously conclude that a claimant was not incarcerated and therefore not improperly paid. As of October 2017, department staff who investigate these cross-matches have direct access to a Department of Correction information system to confirm inmate status. The Director of UI Integrity anticipates this system will provide more accurate data than facility employees. We will follow up on the effectiveness of this change during our next audit.

Tennessee and Interstate Wages and Fictitious Employers

According to the Director of UI Integrity, the Tennessee and interstate wages cross-matches have not worked properly in the new UI information system since its implementation in May 2016. In our prior-year finding, we reported that department management was working with the system vendor to correct these problems. As of October 2017, management had completed several rounds of testing and was continuing to work with the system vendor to refine cross-match processes and business rules in the new system.

The Director of UI Integrity further explained that the fictitious employers cross-match was not implemented in the new UI information system because the department still maintains employer data needed for this cross-match in a mainframe system. The department is in the process of expanding the new information system to integrate employer functions, but management does not expect to complete this project until late 2018. In the meantime, the Director of UI Integrity is working with a data analytics vendor to develop processes for combining and analyzing data from the disparate systems to identify fictitious employers.

Identity Verification

The Claims Center Director provided several reasons why the department could not produce proof of identity documentation for eight claimants. In several instances, the UI Program Specialist had verified the person's identity on a prior claim and maintained the documentation in a UI application that the department retired in May 2016. The documentation did not transfer from the old system to the new system. The Claims Center Director also cited instances where proof of identity documentation did not upload or attach correctly to a claimant's file.

For items with inadequate proof of identity, the UI Program Specialist was unaware that the documentation was insufficient even though the department's internal procedures state that

“Claimants should submit government issued documents as proof of identity.” For those individuals with different names than the submitted documentation, the UI Program Specialist stated that these were the claimants’ former names; however, he did not collect documentation to link the claimants’ former names to their current names.

To preserve data confidentiality, department management limits the number of employees with access to identity verification cross-match results. Since the Claims Center Director did not have access to the results, he did not review the UI Program Specialist’s work. Without this review, neither the Claims Center Director nor the UI Program Specialist were aware that documentation was missing or inadequate.

Effect

When department staff do not have access to effective and timely cross-match results, the risk increases that benefits paid to ineligible state employees, deceased persons, state inmates, and individuals who have re-entered the workforce or who have fraudulent wage histories will go undetected. Furthermore, when the department does not properly verify the identity of all claimants and maintain the necessary documentation, the risk increases that UI benefits will be paid to ineligible individuals, including those who may have committed identity theft or are in the country illegally.

Potential Ineligible Benefit Payments

Based on our testwork noted above, we identified the potential UI benefits paid to ineligible individuals listed in **Table 2**.

Table 2
Potential Benefits Paid to Ineligible Individuals

Cross-Match	FY 2017		FY 2018		Total
	State	Federal	State	Federal	
Identity Verification	\$122,162	\$2,956	\$32,259	\$1,650	\$159,027
Vital Statistics	\$1,925	-	-	-	\$1,925
State Employees	\$16,510	-	-	-	\$16,510
State Inmates	\$15,884	-	-	-	\$15,884
Total	\$156,481	\$2,956	\$32,259	\$1,650	\$193,346

Recommendation

The Commissioner, the Employment Security Administrator, and the Director of UI Integrity should ensure that the cross-matches are designed properly and executed timely to ensure the department only issues UI benefits to eligible individuals. Management should continue working with the data analytics vendor to implement a cross-match program to detect fictitious employers. Management should also consult with Strategic Technology Solutions to increase Edison permissions for department personnel assigned to investigate state employee cross-matches.

The Claims Center Director and the UI Program Specialist should review procedures for identity verification to ensure that the department is collecting adequate documentation and that claimants do not receive benefits before their identities have been verified.

Management's Comment

We concur in part.

It should be noted the improper payments that resulted from the auditor's findings are far less than 1/10 of 1% of payments issued during fiscal year 2017.

For each of the cross-matches listed in this finding, the department is dependent upon other agencies for timely and accurate information. While there have been very few misses in our cross-match programming, the overwhelming majority are due to incorrect or incomplete information from other agencies. As mentioned by the auditor, this finding is not due to carelessness or ineffective programming. We are working with our partners in other agencies to expand department access to systems that house the information needed to prevent these improper payments going forward.

The department has been verifying claimant identities through SSA for many years. In addition to SSA verification, we verbally verify every claimant communication by asking questions that only the claimant should know, a practice approved by USDOL that has been in practice since the call center was established in early 2000's.

The documentation that is accepted by the department as proof of ID has not changed and this specific issue has not been a finding in prior audits. We disagree with the \$159,027 in improper payments. Also, some of the new recommendations would result in an unnecessary and undue burden on claimants and would lead to longer wait times for benefits.

Auditor's Comment

Management has attempted to minimize the audit's results concerning questioned costs by stating in their response that *"improper payments that resulted from the auditor's findings are far less than 1/10 of 1% of payments issued during fiscal year 2017."* In doing so, they have demonstrated their fundamental misconception about the most basic responsibility for state and federal funds. That is to take reasonable steps to ensure that the funds with which it is entrusted are properly spent.

Management's responsibility is to design adequate internal controls over programs to ensure compliance with state and federal requirements. Our role as auditors is to evaluate and report on the adequacy of the controls that management designs. It is not our duty to design or implement the controls for management.

The improper payments noted in our finding—payments to individuals who were incarcerated, deceased, employed by the state, or did not furnish adequate proof of identity—represent the most basic and easily identifiable errors. We used the same data to perform our audit tests that are available to management. The fact that management did not find these errors demonstrates that

the department either did not perform or follow up on searches effectively and thus lacks the necessary controls to prevent improper payments from the trust fund.

The \$159,027 in improper payments for identity verification errors occurred because staff did not obtain the necessary documentation from claimants to verify their identities. The department has the ability to release a claimant's benefits within one business day after obtaining sufficient proof of the claimant's identity. Therefore, we stand by our recommendations as prudent and necessary to protect the unemployment trust fund and the citizens from identity theft.

Under Title 2, *Code of Federal Regulations*, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," we are required to report the \$193,346 of improper payments as the amount clearly exceeds the federal threshold for reporting (\$25,000 of known or likely questioned costs for a compliance requirement of a major program).

Furthermore, it is important to note that the \$193,346 in questioned costs we reported does not include any improper payments made because the department failed to perform wage and fictitious employee cross-matches based on data readily available to the department. This is reported in the **Condition** section of this finding.

Finding Number	2017-044
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
Finding Type	Significant Deficiency – Allowable Costs/Cost Principles Material Weakness – Eligibility Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$1,908,391

The Department of Labor and Workforce Development did not implement identity verification software that it had purchased and that may have prevented fraudulent unemployment claims exceeding \$1.3 million in fiscal year 2017

Background

As it relates to the Department of Labor and Workforce Development, identity theft schemes involve an individual or group using the personal information of unsuspecting victims to submit fraudulent claims for unemployment benefits. According to the U.S. Department of Labor's Office of the Inspector General, perpetrators of these schemes include street gangs, criminal enterprises, individuals with access to personally identifiable information through their employment, and incarcerated individuals.

The Department of Labor and Workforce Development is typically alerted to identity theft by victims and their employers when these parties unexpectedly receive correspondence relating to a claim the victim did not file. Department auditors investigate the suspicious claims and stop payment on those determined to be due to identity theft.

In October 2015, the department began using identity verification software to deter identity theft schemes. The software requires every online applicant for unemployment benefits to correctly answer a multiple-choice quiz about his or her identity. The true owner of the identity is the only person who should be able to correctly answer the quiz, which the software generates from public and proprietary consumer and credit records.

In May 2016, the department launched a new information system to handle claims for unemployment benefits. At that time, management retired the department's old online application

for unemployment benefits, which included the identity verification software. The department did not integrate the identity verification software into the new system until October 2017.

Condition

During the 17 months without identity verification software as part of the unemployment benefits information system, the department

- paid at least \$1.3 million on unemployment claims that it later determined were due to identity theft, and
- paid \$587,917 for software it did not use for 17 months.

Identity Theft Claims

Our analysis of the department’s identity theft tracking spreadsheet valued identity claims at over \$1.3 million in fiscal year 2017—nearly nine times more than the prior fiscal year (see Table 1).

Table 1
Identity Theft Claims by Fiscal Year

	Number of Claims	Dollar Value
2016	132	\$135,175
2017	3,790	\$1,320,474
% Increase	2,771%	877%

Source: Department of Labor and Workforce Development identity theft tracking spreadsheet.

Unused Software

Based on our review of invoices and contract documentation, the department paid \$34,583.33 per month, prepaid annually, for access to the software. The department did not use the software for 17 months, resulting in \$587,917 of access fees paid for unused software.

Criteria

As stated in the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*, best practices include assessing and responding to fraud risks. According to Principle 8, “Assess Fraud Risk,”

8.02 Management considers the types of fraud that can occur within the entity to provide a basis for identifying fraud risks. Types of fraud are as follows . . .

- **Misappropriation of assets** – Theft of an entity’s assets. This could include theft of property, embezzlement of receipts, or fraudulent payments. . . .

8.06 Management analyzes and responds to identified fraud risks so that they are effectively mitigated.

According to Title 2, *Code of Federal Regulations*, Part 200, Sections 403 and 404, costs must “be necessary and reasonable” to be allowable under federal awards, with their reasonableness determined based on a consideration of factors such as “sound business practices” and “whether

the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.”

Cause

Identity Verification Software

In May 2016, the department launched a modernized unemployment information system to replace its legacy system. In the February before the new system launched, management created a change order request for the vendor of the new system to incorporate identity verification into the online application for unemployment benefits.

The vendor did not integrate identity verification in time for the new system's launch. Furthermore, the new system contained deficiencies that affected core program functions, such as reviewing unemployment claims and paying benefits timely.⁴⁴ The Administrator and Assistant Administrator of Employment Security⁴⁵ explained that management focused first on the most urgent problems—those affecting claimants' timely receipt of unemployment benefits. Once those issues were resolved, management focused on secondary problems, including identity verification.

The Assistant Administrator of Employment Security also explained the delay by pointing to the complexity of integrating the identity verification software with the new information system. The old system presented the identity verification quiz first; if answered correctly, the system passed the claimant to a separate platform to complete an application for unemployment benefits. The new unemployment system houses the identity verification software and the application for unemployment benefits on the same platform. This arrangement is more claimant-friendly and slows identity thieves operating multiple claimant frauds, but was more complex and time-consuming for the department to implement.

We inquired why the department continued to pay for software it was not using. The Fiscal Administrator explained that the department prepaid for service annually to maximize the amount presented to the U.S. Department of Labor under the resource justification model. By paying in advance, the department increased the likelihood that it would receive ongoing federal funding for the identity verification software.

The Administrator and Assistant Administrator of Employment Security added that, beginning in May 2017, the vendor provided the department with free anti-fraud services in lieu of the software. These services, provided by the vendor's fraud unit, included benefit integrity scanning to identify high-risk claims and trend analysis. Management provided a statement from the vendor valuing these services at \$386,496. We noted that the vendor did not provide these services until approximately 13 months after the department ceased using the identity verification software and did not provide the same pre-disqualification capabilities for fraudulent claims that the identity verification software would have provided, had it been utilized.

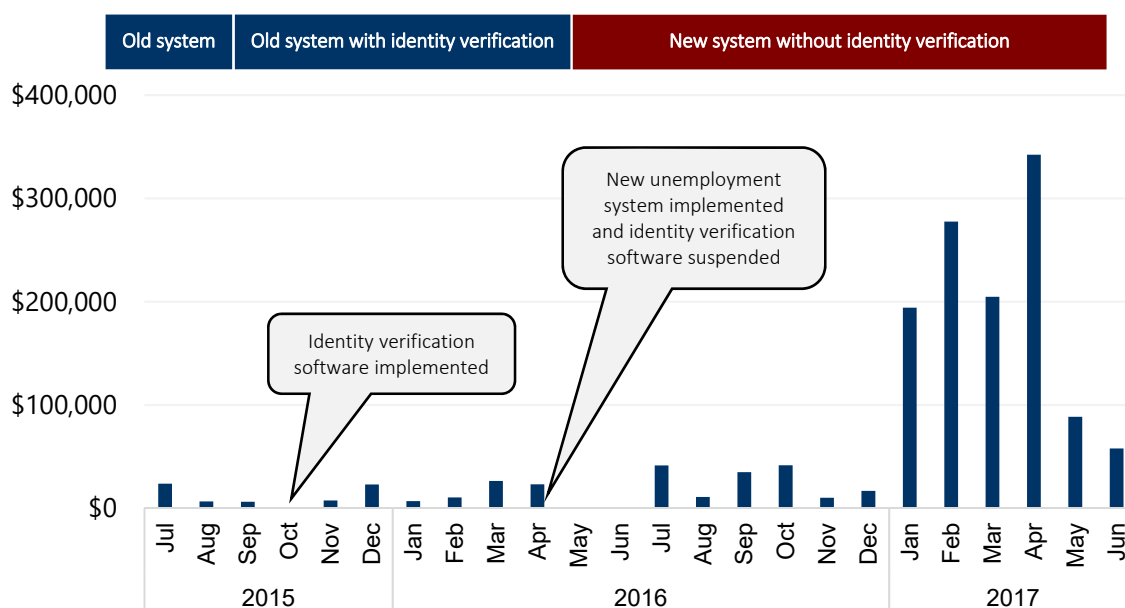
⁴⁴ We detailed these problems in Finding 2016-054 published in our 2016 *Single Audit Report*.

⁴⁵ Department management appointed the current Administrator and Assistant Administrator of Employment Security in August 2017, after the new system had already launched.

Identity Theft Claims

Based on our analysis, we found that the increase in identity theft claims correlated with the department's implementation of its new unemployment information system and temporary suspension of its identity verification software (see Figure 1). When management permitted inactivation of the identity verification software, management lost a critical barrier to thwart identity thieves, allowing them to collect unemployment benefits that remained unchallenged until the victims alerted the department, if they even did so.

Figure 1
Dollar Value of Known Identity Theft Claims by Month
July 2015 to June 2017 (Unaudited)



Source: Compiled from the Department of Labor and Workforce Development's identity theft tracking spreadsheets.

As of December 19, 2017, the Assistant Administrator of Employment Security stated that the department had no known instances of identity theft since the identity verification software's reactivation in October 2017. Management told us they notified the Federal Bureau of Investigation and the Office of the Inspector General of the known identity theft claims and cooperated with law enforcement's follow-up inquiries into these cases.

Effect

Identity-theft-related unemployment payments are essentially unrecoverable due to the anonymity of the perpetrators. These improper payments diminish the state's unemployment trust fund—a resource intended to support workers in times of hardship. When the trust fund balance falls below

specific levels (even as a result of fraudulent activity), employers pay the price in the form of increased unemployment taxes.

Unemployment benefits are subject to federal taxes, so unsuspecting victims risk owing income tax on an identity thief's illicit gains. The department has procedures to prevent this for known identity theft claims. If the victim does not discover and report the identity theft, however, the department declares the benefits paid in the victim's name to the Internal Revenue Service as taxable income.

Finally, fraudulent claims strain the department's resources. In fiscal year 2017, the department devoted two employees working full-time and one employee working part-time to investigating possible identity theft claims. Had the department not experienced a spike in identity theft, these employees could have worked on identifying improper payments to known claimants, which have better prospects of recovery.

Recommendation

The Administrator and the Assistant Administrator of Employment Security should continue to monitor the effectiveness of the department's anti-identity theft programs and procedures and should upgrade them as needed to ensure the integrity of the Unemployment Insurance program.

Management's Comment

We appreciate the auditor's assessment that there existed a need for additional identity verification software as this is something the department had already recognized and taken steps to improve by implementing Lexis Nexis. However, we would like to point out that we suspended Lexis Nexis identity verification software to remove any additional delay of payments or barriers to filing which is prohibited by USDOL to people who truly were entitled to them.

Implementing a software, especially one not required by USDOL, that required additional steps related to identity validation was not prudent during a period focused on eliminating the backlog existing at the time. There no longer exists a backlog, processing and paying claims occur in a timely manner within the federally prescribed window for paying claims, and since October 2017, the Lexis Nexis identity verification software is functioning extremely well.

The department made the decision to process claims under the existing USDOL and SSA protections in place and required under federal law for blocking fraudulent payments. This facilitated more timely processing and payment of claims to those individuals who truly were entitled to them.

It is important to point out that that even though we suspended the core services for identity verification pending the elimination of the backlog, Lexis Nexis did provide value to the department in other ways during the suspension (value determined to be \$386,496 as evidenced by a statement provided by the vendor).

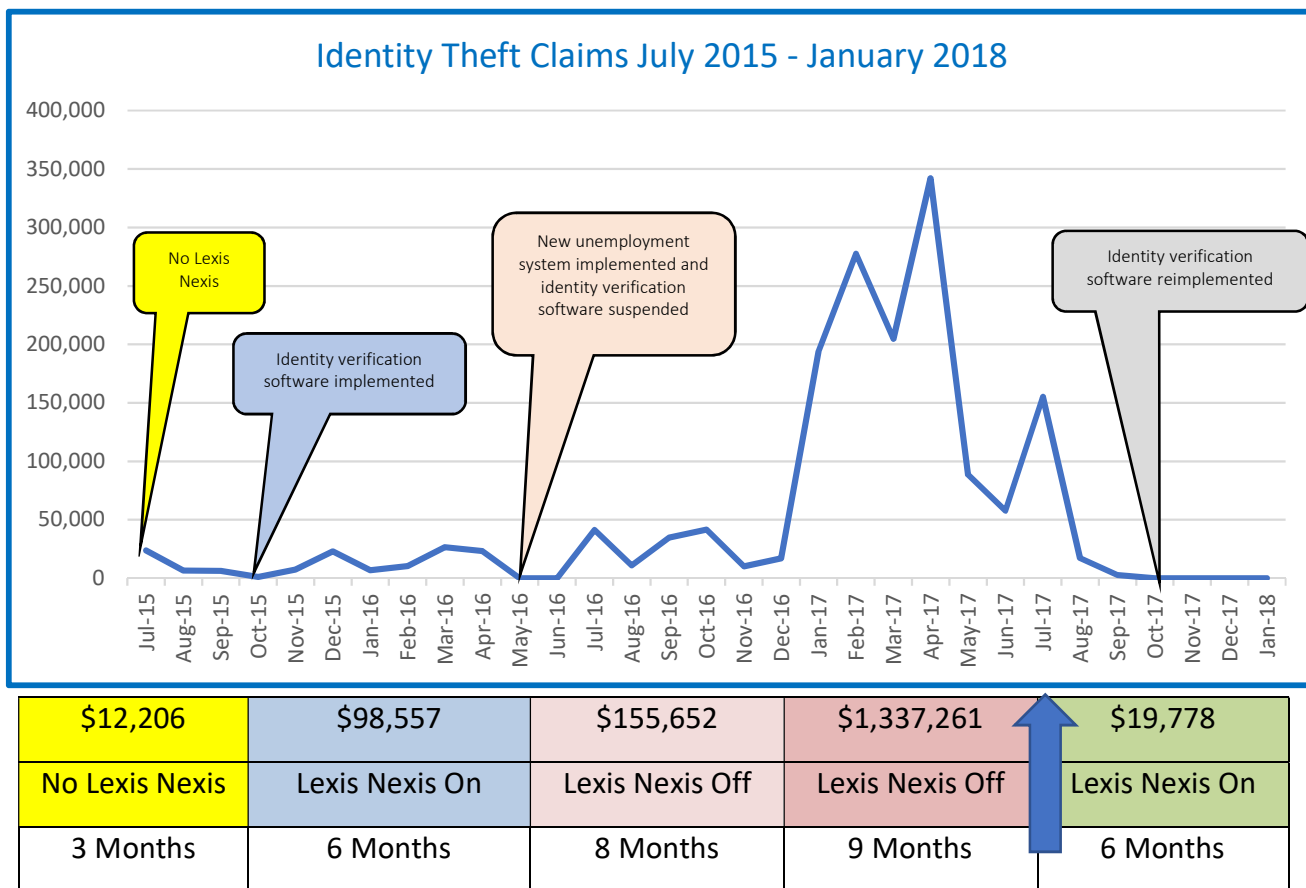
In OPC 389594, submitted July 5, 2017, we requested for the vendor to suspend payments on claims where the routing number was linked to a Green Dot card. This was brought to our attention through the alternative but like services provided under our contract with Lexis Nexis.

Lexis Nexis performed deep scans of our claims data and found that the use of Green Dot cards was tied to accounts with identity theft. While we did find that \$1.3 million was paid to these accounts, we avoided a possible sum of approximately \$30 million by discontinuing payments to these accounts before they exhausted all benefits.

The spike in identity theft has no connection or correlation to the postponement of services originally procured to offer challenge questions (Lexis Nexis Instant ID Q&A) at the time of filing a claim. With the type of data that is associated with identity thefts, it is still possible for fraud to occur due to identity theft with the use of Lexis Nexis Instant ID Q&A as shown in the chart for periods prior to May 2016 when the software was in use.

The true cause for the spike in fraud was not related to the postponement of implementation of Lexis Nexis Instant ID Q&A; it was due to the alternative services deep scans that found a vulnerability not previously known and would not have been known by using the Lexis Nexis Instant ID Q&A software.

When OPC 389594 was put into production on July 31, 2017, you can see the results in the chart show that identity theft dropped severely, which was prior to the Instant ID Q&A software being implemented in October of 2017.



Auditor's Comment

Management suspended their identity theft verification software while addressing a backlog of claims—a problem caused by the department's flawed implementation of a new information system, as we described in our *2016 Single Audit Report*. Management should have also suspended payment for the software, but chose not to. The vendor's "alternate but like services" detected fraud that had already occurred; the product the department paid for is designed to prevent fraudulent claims from being filed.

Management attributed the spike in fraud to a system vulnerability that allowed claimants to assign their benefit payments to untraceable Green Dot prepaid debit cards. We agree that this was a problem, but the department's records show that identity thieves used a variety of payment methods—primarily Green Dot cards, but also other brands of prepaid debit cards, the department's own debit card, and conventional bank accounts. Although management addressed the system vulnerability for Green Dot cards, the department remained exposed to identity theft claims channeled to other payment methods until it implemented the identity verification software, which provides broader protection.

Finally, since management denies that the department's identity theft prevention software would have prevented a spike in identity theft, it is unclear what value the department derives from this product.

Finding Number	2017-045
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29869-17-55-A-47, UI-29924-17-55-A-47, UI-30246-17-60-A-47, FAC BENEFITS & UI Admin, EUC, Fed EB, UCFE, UCX, TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-062
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development sometimes did not sufficiently request separation information from employers and, for the fourth consecutive year, sometimes did not 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. The department processes regular Tennessee Unemployment Compensation (TUC) claims, as well as claims from workers separated from federal or military service through Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-servicemembers (UCX) claims.

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, the department sends a request letter to the separating employer notifying them of the claim and the reason the claimant gave for his or her separation. The employer has 7 days to respond to the letter to dispute the claim. Upon approving

or denying a claim, the department 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 decision letter's mailing date. 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.

Prior Audit Findings

Since 2014, we have reported that the department sometimes did not send letters to claimants and employers to notify them of claims decisions and their rights to appeal these determinations. In management's comments on the 2014 and 2015 findings, management stated that not all claims required decision letters. In response to the 2016 finding, management also stated that the decision letters were sometimes not required, but that the department would begin sending these letters for all claims:

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.

Condition

From the populations of payments for TUC, UCFE, and UCX claims during fiscal year 2017, we selected three random, nonstatistical samples. Based on our testwork, we noted the following errors:

- For 7 of 70 claims tested (10%), the department did not send request letters to the separating employers advising them to respond within 7 days if they wished to dispute the claims.
- For 43 of 70 claims tested (61%), the department did not issue decision letters.

See **Tables 1** and **2** below for further details regarding the populations, samples, and un-issued letters by claim type.

Table 1
Correspondence Errors by Program

Program	Population	Sample	Request Letter Errors	Request Letter Error Rate	Decision Letter Errors	Decision Letter Error Rate
Tennessee Unemployment Compensation	89,101	60	7	12%	34	57%
Unemployment Compensation for Federal Employees	787	5	0	0%	5	100%

Unemployment Compensation for Ex-servicemembers	299	5	0	0%	4	80%
Total	90,187	70	7	10%	43	61%

Table 2
Breakdown of Decision Letter Errors

Program	Not Sent to Claimant	Not Sent to Employer	Not Sent to Claimant or Employer	Total Decision Letter Errors
Tennessee Unemployment Compensation	1	12	21	34
Unemployment Compensation for Federal Employees	0	0	5	5
Unemployment Compensation for Ex-servicemembers	0	1	3	4
Total	1	13	29	43

Given the problems identified during our fieldwork and in prior audit findings, we also reviewed the department's Financial Integrity Act Risk Assessment. The risk assessment states that one of the department's controls to detect fraud is notifying employers when their former employees file claims and providing the employers an opportunity to appeal eligibility determinations. Our testwork, however, revealed that this control was sometimes not operating as described by management in the risk assessment.

Criteria

Request Letters

According to Section 50-7-304(b)(2)(C), *Tennessee Code Annotated*,

If a separation issue exists, the separating employer will be asked to supply information describing circumstances leading to the separation. The information must be received by the agency within seven (7) days from the date the agency request for information is mailed to the separating employer. In the absence of the response, the decision of entitlement will be based on the claimant's statement and other information available to the agency.

Decision Letters

To ensure all parties are adequately notified of the agency's decision for a claim and have sufficient time to appeal, best practices dictate that the department should provide a written notice to the claimant and the claimant's separating employer with the agency decision, the reason for the decision, and the parties' appeal rights.

Section 50-7-304(b)(1)(B), *Tennessee Code Annotated*, states that

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. The nonmonetary determination of the agency representative shall become final, unless an interested party files an appeal from the nonmonetary determination within fifteen (15) calendar days after the date of mailing of the written notification of the nonmonetary determination to the last known address of the party, or within fifteen (15) calendar days after the date the written notification is given to the party, whichever first occurs.

Title 20, *Code of Federal Regulations* (CFR), Sections 609.9 and 614.9 state that “the terms and conditions of the applicable State law,” including those about notices of eligibility for unemployment compensation, also apply to UCFE and UCX claims, unless the results would be inconsistent with other federal requirements.

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 Employment Security Division’s *Handbook for Employers* states,

After all the separation information has been received, the Department issues an Agency Decision. . . . The Agency Decision either approves or rejects the claim. Both the employer and the claimant have 15 days to appeal the Agency Decision if they disagree with the findings. If no appeal is made, or once the appeals process is completed, the Agency Decision becomes final and binding.

Cause

Request Letters

According to the Claims Center Director, when the department implemented the new unemployment system (Geographic Solutions Unemployment System, or GUS) in May 2016, it started sending employers a letter that combined the Statement of Potential Charges with the request letter. However, the combined letter informed employers that they had 15 days to respond to the request instead of 7 days. The Claims Center Director stated that the combined letter was not sufficient and that one of his first steps when promoted in August 2016 was to replace the combined letter with a standard request letter. Based on our testwork and on discussion with the Claims Center Director, the department ceased using the combined letter in September 2016 and returned to sending two separate letters.

Decision Letters

From the 34 TUC claims without decision letters, 31 were “lack of work” claims resulting from employers laying off employees and 3 were discharge claims, or claims where the employee was terminated because of performance issues other than misconduct.

According to the Claims Center Director, lack of work claims do not require decision letters to be sent to claimants or employers. The Claims Center Director cited guidance received from a UI Program Specialist for the U.S. Department of Labor (USDOL). According to the UI Program

Specialist, USDOL does not require decision letters for lack of work claims since they do not have reportable, potentially disqualifying issues, but noted that they may be necessary under state laws:

[I]f [Tennessee] wants to issue non-countable determinations for LOW [lack of work] that is based on their law or policy that is the state's prerogative, the USDOL does not require them to do that.

The Assistant Administrator for the Employment Security Division stated that the department should send decision letters to both the employer and claimant for discharge claims and should retain documentation of any decision letters sent. According to the Assistant Administrator, the department could not locate documentation of decision letters sent to employers for the three discharge claims.

The Employment Security Manager stated that decision letters for UCFE claims were sometimes not sent due to staff errors. When approving UCFE claims in GUS, staff are required to indicate that their approval is a determination, which generates decision letters. According to her, Federal Unit staff did not properly code their approvals as determinations in GUS.

Regarding the UCX claims, the Employment Security Manager stated that the department does not send decision letters to separating employers because ex-servicemembers are required to provide their military discharge documentation. Although this paperwork provides discharge information, it does not eliminate the need to provide ex-servicemembers and their former employers with notices about claims decisions, the reasons for the decisions, and the parties' appeal rights.

Effect

If employers do not receive separation letters with correct information on the timeframe for disputing claims, there is an increased risk that the department will pay unemployment benefits to ineligible claimants. Similarly, 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 decision to approve or deny the claim for benefits. The department risks paying benefits to claimants who are ineligible or have filed fraudulent claims if it does not send employers and claimants all claims-related correspondence. Furthermore, the department denies employers their rights to appeal claims to ensure that their unemployment insurance tax liability does not increase.

Recommendation

The Commissioner and the Employment Security Administrator should continue to evaluate the benefit payment processes and ensure that staff send written request letters and agency decision letters to claimants and their separating employers for all claims since these letters communicate critical information to claimants and employers. 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 claims decisions.

Management's Comment

We concur in part.

The actual error rate for not sending decision letters is 4.2% and not 61%.

USDOL does not consider a lack of work separation to be a non-monetary issue and does not require a letter to be sent for these separations. Forty of the 43 claims questioned for not sending a decision letter were lack of work claims. The actual error rate is 4.2% and not 61% as noted in the finding.

TCA 50-7-304(b)(1)(B) discusses our state requirements for notifications related to non-monetary determinations on claims. Lack of work separations do not qualify as non-monetary issues and therefore do not require a non-monetary determination.

Program	Pop.	Sample	Request Letter Errors	Request Letter Error Rate	Decision Letter Errors	Decision Letter Error Rate
Tennessee Unemployment Compensation	89,101	60	0	0%	3	4.2%
Unemployment Compensation for Federal Employees	787	5	0	0%	0	0%
Unemployment Compensation for Ex-service members	299	5	0	0%	0	0%
Total	90,187	70	0	0%	3	4.2%

*Corrected per USDOL guidelines on lack of work claims; TCA 50-7-304(b)(1)(B).

For the third consecutive year USDOL provided written verification that decision letters are not required for lack of work claims.

Although 7 of 70 did not receive a traditional request for separation information letter, they did receive a SIDES (a web-based system that allows electronic transmission of information requests from UI agencies to employers and/or Third Party Administrators [TPAs], as well as transmission of replies containing the requested information back to the UI agencies) notification and a combined letter with the request for separation information. As a cost cutting measure, with the implementation of the new unemployment system in May of 2016, two letters, the notice of potential charges and the request for separation for information, which were sent out with each claim filed, were combined into one letter.

The requests for separation information were still sent, but the employer in effect was given an extra eight days to respond. Because this was creating some confusion with employers, the department returned to sending two separate letters.

Auditor's Comment

Management has misstated the error rate as 4.2% by calculating it with a flawed methodology. As stated originally in our finding, the accurate error rate is 61%; see Table 1 above.

The USDOL's Final Determination Letter dated September 6, 2017, which is the federal agency's formal assessment on our prior audit findings, states that the department must "demonstrate decision letters are issued for all claims" as a part of its corrective action, reaffirming the conclusion in our audit findings. Management's response to the Final Determination Letter, documented on the Summary Schedule of Prior Audit Findings, states that "the department has worked with the vendor to ensure that all automatic approvals of lack-of-work claims have decisions issued."

In addition, the use of decision letters allows management to notify claimants and employers of their appeal rights and serves as a simple but effective control to ensure beneficiaries are eligible.

Finding Number	2017-046
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2016-054
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development improved in three of the four areas noted in the prior audit; however, the department did not meet the federal benefit payment standard

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, claimants 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 (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 the department's 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.

Federal Claims

In addition to regular Tennessee Unemployment Compensation (TUC), the department is responsible for providing Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-servicemembers (UCX) benefits to workers separated from federal or military service. The department assigns UCFE and UCX claims to a separate unit for processing. This unit is responsible for collecting separation and wage data and then making determinations on federal and military claims.

Status of Prior-year Finding and Management's Corrective Action

In the prior audit, we noted that the department did not review Unemployment Insurance claims prior to issuing benefits and did not respond to claimants' requests for assistance or conduct appeals hearings in a timely manner due to the implementation of a new benefits processing system, the Geographic Solutions Unemployment System (GUS). During the current audit, we noted that management took the following steps to resolve conditions noted in the prior audit finding:

a. GUS automatically approved lack-of-work claims prior to staff review.

In reviewing claims paid during fiscal year 2017, we noted that staff reviewed and resolved issues such as previous claim disqualifications or earnings requirements before benefits were paid. The department also temporarily disabled GUS automatic system approvals on August 12, 2017.

b. The department did not respond to claimants' requests for assistance timely.

The department implemented a traditional staffed call center to assist claimants on January 30, 2017. On June 30, 2017, we observed a backlog of 3,250 open tickets in the department's customer service support application, the oldest dating back to April 12, 2017, compared to 21,500 tickets on November 28, 2016. Additionally, we documented instruction provided by division management on resolving customer service tickets.

c. Appeals were not scheduled timely.

The department hired hearing officers to reduce the backlog of appeals. As of June 30, 2017, the Appeals Tribunal had a backlog of 535 unscheduled appeal requests dating back to May 5, 2017, compared to 1,192 unscheduled appeals on November 7, 2016.

The fourth condition noted in the prior audit was that the department did not review claims or pay benefits timely. As of June 30, 2017, the department had a backlog of 1,552 pending claims awaiting determination, 415 of which exceeded the federal payment promptness standard of 21 days. We repeated this portion of the prior audit finding since the department did not meet the first benefit payment standard.

Results of Current Audit Work

Condition

We found that the department did not meet first pay timeliness standards for TUC, UCFE, and UCX claims. We selected random, nonstatistical samples of a total of 70 paid UI claims with initial claim dates in fiscal year 2017; see **Table 1** for more information. Based on our testwork, we noted that for 37 of 70 UI claims tested (53%), the department did not issue the claimant's first benefit payment within 14 days of the first compensable week, as required by the U.S. Department of Labor.

Table 1
Timeliness by Program

Program	Errors	Sample	Error Rate	Population	Minimum Days Late	Maximum Days Late	Average Days Late
Tennessee Unemployment Compensation	28	60	47%	89,101	2	122	39
Unemployment Compensation for Federal Employees	5	5	100%	787	5	11	8
Unemployment Compensation for Ex-servicemembers	4	5	80%	299	65	297	129
Total	37	70	53%	90,187	2	297	44

Our review revealed that while the department's prompt payment percentage improved during the second half of fiscal year 2017, it did not meet the first benefit payment standard of 87% for the

most recent federal performance compliance period of April 1, 2016, through March 31, 2017. The department instead averaged 60.1%. For the state fiscal year, the department averaged 60.4%. See **Table 2**.

Table 2
Reported Benefit Promptness
April 1, 2016, Through June 30, 2017

<i>Benefit Promptness for Audit Period (State Fiscal Year):</i>	Month Ending Date	% of Prompt Payments	<i>Benefit Promptness for Federal Performance Period:</i>
60.4%	April 30, 2016	94.4%	60.1%
	May 31, 2016	90.8%	
	June 30, 2016	93.5%	
	July 31, 2016	62.6%	
	August 31, 2016	44.4%	
	September 30, 2016	43.5%	
	October 31, 2016	35.9%	
	November 30, 2016	37.1%	
	December 31, 2016	30.5%	
	January 31, 2017	46.1%	
	February 28, 2017	59.3%	
	March 31, 2017	82.7%	
	April 30, 2017	90.9%	
	May 31, 2017	95.3%	
	June 30, 2017	95.9%	

Source: The U.S. Department of Labor's website at <https://ows.doleta.gov/unemploy/>.

Given the problems identified during our fieldwork, we reviewed the department's Financial Integrity Act Risk Assessments. We determined that management did not address the risk of not approving claims timely.

Criteria

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."

According to Title 20, *Code of Federal Regulations* (CFR), Part 640, Section 3, the state should "insure the full payment of unemployment benefits to eligible claimants with the greatest promptness that is administratively feasible." In order to comply with Section 303(a)(1) of the Social Security Act, states must pay 87% of all first-benefit payments to eligible claimants for intrastate claims within 14 days of the end of the first compensable week.⁴⁶ Compliance with the

⁴⁶ Section 50-7-302(a)(5)(A), *Tennessee Code Annotated*, requires a mandatory "waiting week" for which claimants do not receive unemployment benefits. Therefore, in Tennessee the standard is 21 days following the beginning of a claimant's eligibility (7-day waiting week + 14 days following the first compensable week).

87% criteria is calculated by the performance achieved for the 12-month period ending on March 31 of each year.

20 CFR 609.6 and 20 CFR 614.6 state that full payment of UCFE and UCX benefits “shall be made with the greatest promptness that is administratively feasible.”

Cause

According to the Claims Center Director and the Employment Security Manager, first-payment delays occurred due to GUS implementation issues that caused a backlog of claims. The Claims Center Director stated that the backlog had been cleared as of mid-March 2017. Based on the benefit payment promptness information available through the U.S. Department of Labor’s website and the decline in the number of pending claims, department management appeared to have resolved the issues associated with GUS that caused delays in processing claims and paying benefits by the end of the audit period.

Effect

By not complying with the first benefit payment promptness standard, the department places an undue hardship on claimants who are recently unemployed.

Recommendation

The Commissioner of the Department of Labor and Workforce Development should continue taking steps to ensure claims are reviewed and paid promptly. Such steps include, but are not limited to, making necessary modifications to GUS and ensuring that staffing levels are adequate. In addition, management should update its risk assessment to include controls that address the risk of not paying benefits timely.

Management’s Comment

We do not concur.

For the current audit period, July 2016–June 2017, the auditors indicate management appears to have corrected this issue by meeting the requirement from April through June 2017.

Program	Errors	Sample	Error Rate	Population	Minimum Days Late	Maximum Days Late	Average Days Late
Tennessee Unemployment Compensation	22	60	37%	89,101	2	122*	32
Unemployment Compensation for Federal Employees	5	5	100%	787	5	11	8
Unemployment Compensation for Ex-servicemembers	3	5	60%	299	65	80	73
Total	30	70	42%	90,187	2	122*	38

Corrections to errors and rates in audit sample. *Note: 122 days late due to a wage protest, exception to the normal processing times on a claim for UI benefits.

Even though the federal payment standard is not specifically mentioned in our risk assessment, the risk of inaccurate reporting is included in our risk assessment for fiscal year ended June 30, 2017.

Auditor's Comment

As clearly stated in Title 20, *Code of Federal Regulations*, Part 640, Section 3, the department's compliance with the 87% criteria is calculated by the performance achieved for the 12-month period ending on March 31 of each year, not the calculation of any month. For the most recent 12-month period, which ended on March 31, 2017, the department reported a first benefit promptness rate of 60.1%, well below the 87% federal standard.

In their response to our finding, management included a table that presents "corrections to errors and rates in [the] audit sample" without any explanation of the supposed errors. Moreover, even the amounts reported by management show that the department failed to issue timely benefit payments for approximately half of the claims in the audit sample.

Finally, management's comment regarding the risk assessment suggests that they do not understand the purpose for the formal risk assessment since achieving the federal prompt payment criteria is not a reporting accuracy risk issue.

Finding Number	2017-047
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-28004-16-55-A-47, UI-29924-17-55-A-47
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$5,048

The Employment Security Division did not properly calculate weekly benefit amounts for claimants, and paid benefits for which claimants were not eligible, for Trade Adjustment Assistance programs

Background

The U.S. Department of Labor’s (USDOL) Employment and Training Administration administers the Trade Adjustment Assistance (TAA) Program created by the Trade Act of 1974. The USDOL describes TAA as “a federal entitlement program that assists U.S. workers who have lost or may lose their jobs as a result of foreign trade. This program seeks to provide adversely affected workers with opportunities to obtain the skills, credentials, resources, and support necessary to become reemployed.”

Two sources of assistance under TAA are Alternative Trade Adjustment Assistance (ATAA) and Reemployment Trade Adjustment Assistance (RTAA). These two programs are both 100% federally funded, serve the same purpose, and have similar eligibility requirements. For claims paid in our audit period, ATAA and RTAA benefits are available to claimants age 50 or older who do not earn more than \$50,000 annually in their new employment. Eligible claimants can receive benefits upon reemployment at a lower wage, at a rate of 50% of the difference between old and new wages and up to \$10,000 over two years. Employment Security Division staff within the Department of Labor and Workforce Development calculate weekly benefit amounts (WBAs) based on annualized wages. Specifically, claims staff use the hourly rate and hours worked in the last full week with the separating employer and the hourly rate and hours worked in the first full week with the new employer, multiplied by 52 weeks. When a claimant’s hourly rate or employer changes, staff recalculate the WBA.

A third source of assistance under TAA is the Trade Readjustment Allowances (TRA), which is also 100% federally funded. This program provides support to workers participating in full-time training or who have obtained a waiver for that participation and have exhausted their unemployment insurance benefits. TRA is issued in three stages (Basic TRA, Additional TRA, and Completion TRA) as the claimant meets the requirements of each.

- Basic TRA is available to eligible claimants enrolled in or participating in approved training, who have completed training, or who have obtained a waiver of the training requirement. By performing searches for employment, claimants may receive Basic TRA for a period before these requirements take effect.
- Benefits under Additional TRA are available to claimants participating in approved training after the exhaustion of Basic TRA.
- Completion TRA is available to claimants who will complete the training in the authorized period.

Condition

1. The department miscalculated WBAs for claimants under both ATAA and RTAA. We performed testwork on a sample of 25 of 70 RTAA claims and all 10 ATAA claims the department paid in fiscal year 2017. To evaluate the accuracy of the department's calculations, we reviewed the WBA that was last paid in FY 2017 for each claimant. For 9 of the 25 RTAA claims (36%) and 8 of the 10 ATAA claims (80%), the department incorrectly calculated the WBA. For each of the claims with errors, we determined the amount of overpayments and underpayments for all of the claimants' FY 2017 claims. See Table 1 for additional information.
2. Additionally, we performed testwork on a sample of 25 of 93 TRA claims. We found that for 3 of the 25 TRA claims (12%--1 in the Basic stage and 2 in the Additional stage), the department paid benefits to claimants who were not participating in training and also had not obtained a waiver for training. See Table 1 for additional information.

**Table 1
Errors by Program**

Program	Population Total		Sample Total		Errors	Error Rate	Sample Under-paid	Sample Over-paid	Total Under-paid	Total Over-paid
	<i>Claims</i>	<i>Dollars</i>	<i>Claims</i>	<i>Dollars</i>						
RTAA	70	\$251,702	25	\$104,882	9	36%	\$68	\$60	\$1,974	\$695
ATAA	10	\$27,011	10	\$27,011	8	80%	\$0	\$135	\$0	\$1,740
TRA	93	\$364,314	25	\$90,565	3	12%	\$0	\$2,613	\$0	\$2,613

The \$5,048 combined overpayments represent federal questioned costs. According to the Assistant Director, though, since both RTAA and ATAA have maximum benefits of \$10,000, the overpayments might mean that the claimants just received benefits sooner than expected. (The Assistant Director's explanation did not extend to the TRA claims, which would simply be classified as overpayments since the claimants were ineligible to receive these benefits.)

Given the problems identified during our fieldwork, we also reviewed the departments' Financial Integrity Act Risk Assessments. We determined that management identified the risk of improper payment of ATAA; however, the department identified the control based on automated calculation of benefit amounts. The legacy system calculated benefit amounts, but as we identified in our testwork, these amounts were not correct according to the department's current manual calculations.

Criteria

1. According to the Trade Act of 1974, title II, chapter 2, as amended in 2002 by the TAA Reform Act; Section 246 (a)(2)(A), “A State shall . . . pay . . . 50 percent of the difference between (i) the wages received by the worker at the time of separation; and (ii) the wages received by the worker from reemployment.”
2. The Trade Act also outlines eligibility requirements for TRA benefits. Section 231 explains that Basic TRA is payable, for up to 52 weeks, to workers who have enrolled in a training program, completed a training program, or received a waiver of the requirement to be enrolled in training. Section 233 then states that Additional TRA benefits are available for up to another 65 weeks the worker is participating in training and that Completion TRA benefits are available up to another 13 weeks to workers who will complete the training during that period.

Cause

1. The department calculated three of the RTAA rates and four of the ATAA rates using its legacy system and then transferred the data to the new system upon its implementation in May 2016. For these rates, the Assistant Director was not certain how they were calculated since staff simply had to enter the data.

Regarding the WBAs calculated in the new system, the Assistant Director explained that whenever the claimant experiences a rate change with an existing new employer, the claims agents should only change the rate in the WBA calculation. The hours should remain what they were when staff first set up the reemployment. In these cases, however, the agent had been incorrectly figuring the WBA at the hours the claimant worked the week of the rate change. In other cases, the agent missed that a rate change occurred or did not update the system with a newly calculated WBA. In one instance, the agent did not include in the calculation of WBA wages the amount that the claimant earned above his normal hourly wage.

2. The Assistant Director explained that system and claims agent errors caused the three overpaid TRA claims.
 - a. For the first claim (the one in the Basic stage), the Assistant Director explained that during the migration from the legacy system to the new system, the training waiver denial did not transfer. A claims agent unfamiliar with the TRA program then set the claim up to pay.
 - b. The Assistant Director was not certain why the second claim was approved and paid but attributed the problem to system and agency error, including that the new system did not correctly recognize a denial migrated from the legacy system.
 - c. For the third claim, the Assistant Director stated that a claims agent approved the TRA Additional claim when the claimant did not meet the requirements. She explained that staff were learning the new system and that this agent, who has subsequently separated from the department, was not appropriately addressing

claims. Since claimants must submit weekly certifications, other staff would have later processed any claims previously handled by that agent.

Effect

By paying claimants incorrect weekly benefits, the department either delayed funds for which claimants were eligible or disbursed funds early that the claimant might not have been eligible to receive later. Paying claimants benefits for which they do not qualify resulted in overpayments of federal funds. In addition, the department's inability to properly process federal funds could impact the availability of future funding.

Questioned Cost Analysis

We questioned costs of \$5,048 for overpayments from the federal programs. Uniform Guidance (*Code of Federal Regulations*, Title 2, Part 200) requires auditors to report as audit findings known questioned costs when known or likely questioned costs exceed \$25,000 for a compliance requirement of a major program. The questioned costs reported in this finding, combined with questioned costs for Unemployment Insurance program eligibility in findings 2017-043, 2017-044, and 2017-048, meet this threshold.

Recommendation

The Commissioner and Employment Security Administrator should ensure staff are aware of procedures for consistent calculation of weekly benefit amounts and for payment of benefits only where allowed. Employment Security Division staff should monitor the errors we identified to ensure that claimants are ultimately paid the correct amount. Staff should also recheck the additional RTAA claims to ensure the use of the correct weekly benefit amount.

Management's Comment

We concur.

The Trade Adjustment Assistance Programs are complex and difficult to administer. The system issues that lead to some of these improper payments were due to initial data conversion errors during implementation.

This was corrected in December of 2016. We continue to train staff on an ongoing basis.

Finding Number	2017-048
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-29869-17-55-A-47
Federal Award Year	2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$3,856

The Department of Labor and Workforce Development was unprepared to process Disaster Unemployment Assistance claims and did not properly pay benefits

Background

The Federal Emergency Management Agency has delegated the responsibility for administering the Disaster Unemployment Assistance (DUA) program to the U.S. Department of Labor (USDOL) and transfers funding to USDOL for states impacted by major disasters.

The Department of Labor and Workforce Development (the department) received DUA funding after the Sevier County wildfires. After the disaster declaration on December 15, 2016, DUA funding allowed claimants to receive unemployment assistance that would not otherwise have been available to them. The department enacted an emergency action plan to assist persons impacted by the wildfires and sent its mobile job centers to the area to provide computers and Internet service so that workers could file unemployment claims.

Conditions and Criteria

Based on our review of the 29 DUA claims paid during fiscal year 2017, we noted the following instances of noncompliance with federal guidelines.

Improper Payment

We found that the department erroneously paid DUA benefits for 3 of the 29 claims (10%) while also paying regular Tennessee Unemployment Compensation (TUC) benefits for those claims. The weekly DUA benefits that the department incorrectly paid to these claimants who were also receiving TUC benefits totaled \$831.

We also found that the department approved one DUA claim prior to the claimant exhausting TUC benefits though it did not pay DUA and TUC benefits at the same time. The TUC claim had a balance remaining when staff inactivated it and approved the DUA claim, paying \$3,025 of benefits.

Title 20, *Code of Federal Regulations* (CFR), Section 625.4, states that “an individual shall be eligible to receive a payment of DUA with respect to a week of unemployment . . . if . . . [t]he individual is not eligible for compensation . . . or for waiting period credit⁴⁷ for such week under any other Federal or State law . . .”

Benefit Amounts

We also found that the department underpaid claimants’ weekly benefit amounts for 2 of the 29 claims tested (7%). The department’s calculation of weekly benefits amounts for the DUA program is similar to the calculation for TUC benefits, but DUA requires a minimum weekly benefit amount of “50 percent of the average weekly payment of regular compensation in the State.”⁴⁸ At the time of the Sevier County wildfires, the state’s minimum weekly benefit amount was \$116. For these 2 claims, the department paid the minimum weekly benefit amount instead of \$119 and \$151 as allowed for DUA.

According to 20 CFR 625.6, “the amount of DUA payable . . . shall be the weekly amount of compensation the individual would have been paid as regular compensation, as computed under the provisions of the applicable State law for a week of total unemployment.”

Promptness

We also evaluated whether the department made first-benefit payments to DUA claimants promptly. Based on our review, the department made the first payments on 22 of the 29 claims (76%) more than 21 days after the disaster announcement date or the dates that the claims were filed, whichever was later. Using this 21-day time limit, which is the standard for regular unemployment claims, the delays in making the first-benefit payments for these DUA claims ranged from 4 to 53 days and averaged 18 days.

According to 20 CFR 625.9(e), “full payment of DUA when due shall be made with the greatest promptness that is administratively feasible.” For regular unemployment compensation, 20 CFR 640 establishes that states must pay 87% of all first-benefit payments to eligible claimants for intrastate claims within 14 days of the end of *the first compensable week*. Adding the 7-day waiting week specified in state statute,¹ the department must issue first-benefit payments of regular unemployment compensation within 21 days following the beginning of a claimant’s eligibility.

Given the problems identified during our fieldwork, we also reviewed the department’s Financial Integrity Act Risk Assessments. We determined that management identified the risk of improper payment of DUA; however, the department identified the control based on DUA as a manual calculation although the department no longer calculates these benefits manually. In addition, the department did not identify the risk of not paying benefits timely.

⁴⁷ Section 50-7-302(a)(5)(A), *Tennessee Code Annotated*, requires a mandatory “waiting week” for which claimants do not receive regular Tennessee Unemployment Compensation benefits.

⁴⁸ 20 CFR 625.6(b)

Cause

Overall

In May 2016, the department implemented a new benefits processing application, the Geographic Solutions Unemployment System (GUS). The Sevier County wildfires occurred approximately seven months later and marked the first time since fiscal year 2012 that Tennessee received DUA assistance. According to the Unemployment Program Specialist, the vendor responsible for developing and maintaining GUS had not yet completed the DUA programming when the disaster occurred. The vendor had to make changes in GUS to create the DUA applications and to design the eligibility determination and payment processes. Meanwhile, claims agents had to learn about processing DUA applications in the system and how they differed from regular unemployment compensation claims.

Improper Payment

According to the Unemployment Program Specialist, claims staff approved the DUA claims in error. In two instances, staff approved the DUA applications while the claimants had TUC claims that were unresolved, pending the receipt of wage information.

Promptness

Based on discussions with the Commissioner, Deputy Commissioner, and Controller, the department did not pay claims earlier because it did not know whether the state would receive DUA funding. Management stated that it began issuing payments on DUA claims after conversations with federal officials indicated that disaster funding would be provided. Since these discussions took place before the USDOL issued a formal award notice or other written funding statement, we were unable to determine whether the delays in issuing the DUA payments were because of GUS difficulties when processing the claims, uncertainty about the availability of federal funds, or a combination of the two.

Effect

Failure to promptly and accurately pay DUA benefits prevents individuals affected by disasters from obtaining the financial support available to them. In addition, the department's inability to properly process federal funds could impact the availability of future funding.

Questioned Cost Analysis

The \$3,856 of improperly paid DUA benefits represents federal questioned costs. Uniform Guidance (CFR 2.200) requires auditors to report as audit findings known questioned costs when known or likely questioned costs exceed \$25,000 for a compliance requirement of a major program. The questioned costs reported in this finding, combined with questioned costs for Unemployment Insurance program eligibility in findings 2017-043, 2017-044, and 2017-047, meet this threshold.

Recommendation

The Commissioner should ensure that the department's information systems are able to process all unemployment claims. In addition, the Commissioner and the Administrator of Employment Security should ensure that staff have received the necessary training and are aware of how to review and process DUA claims in GUS. Management should also update the risk assessment to address the risks of improper payment of DUA claims and delays in paying eligible claimants.

Management's Comment

We concur in part, but do not agree with the \$3,856 amount in questioned costs.

There is no federal timeliness standard for DUA claims. A comparison between Tennessee Unemployment Compensation (TUC) and Disaster Unemployment Assistance (DUA), when it comes to timeliness, cannot be made; they are two completely different programs that operate under different guidelines.

Process and Timeliness Differences

In order to be eligible for DUA, a claimant must first file for TUC and, if monetarily eligible, draw TUC. If the claimant is not initially monetarily eligible for TUC, staff must investigate to find out why. Once the determination is made that the claimant is not monetarily eligible, he or she can be transferred to a DUA claim.

Claimants who are not monetarily eligible for TUC must provide proof of earnings from an affected employer in order to be eligible for DUA. Claimants are then given 21 days to provide that proof. DUA claimants are also not required to serve a waiting week, which would alter the calculation required for first pay timeliness.

Incorrect Finding

The auditor's assessment of the claimant who was set up for DUA prior to drawing TUC is incorrect. According to our records, the claimant exhausted all TUC benefits prior to transitioning to DUA. Once the claimant was no longer eligible for DUA, she was eligible for a new TUC claim based on wages from new base period quarters. For this finding, \$3,025 of the \$3,856 questioned costs is incorrect, due to incorrect audit assessment of this one claimant. This reduces total questioned costs of this finding to \$831.

Staff Related Errors

Two claimants were underpaid based on staff errors in calculating the DUA weekly benefit amount.

Three claimants were paid on DUA and TUC for the same weeks. Each claimant was originally not monetarily eligible for TUC benefits so they were set up on DUA. Once it was determined that the claimants were eligible for TUC benefits, they were moved back to TUC claims. Mistakes by staff resulted in payments being made on both claims.

Auditor's Comment

The DUA program is designed to assist individuals who have been affected by a natural disaster and who are not eligible for other unemployment benefits. The fact that DUA claimants, unlike TUC claimants, are not required to serve a waiting week further indicates that prompt payments are an important facet of the program. Also, contrary to what management implies in their comments, the department can approve DUA claims before receiving proof of earnings.

According to 2 CFR 200.84, questioned costs result from violations or possible violations of the terms and conditions of a federal award. We obtained evidence from GUS, the project communication system, and the UI Program Specialist responsible for DUA claims that the claimant still had TUC benefits remaining when the department approved the DUA claim; thus, the total \$3,025 is questioned.

Finding Number	2017-049
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29869-17-55-A-47, UI-29924-17-55-A-47, UI-30246-17-60-A-47, FAC BENEFITS & UI Admin, EUC, Fed EB, UCFE, UCX, TUC-State Expenditures
Federal Award Year	2010 through 2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	2016-056
Pass-Through Entity	N/A
Questioned Costs	N/A

Due to continued difficulties with the Geographic Solutions Unemployment System, the Department of Labor and Workforce Development submitted uncorroborated, inaccurate, and late reports

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 program, these reports include the Employment Training Administration (ETA) 227 report, which provides information on intrastate and interstate claim overpayments under the state's regular Unemployment Insurance (UI) program; federal UI programs including the Unemployment Compensation for Federal Employees and Unemployment Compensation for Ex-servicemembers; and the federal-state Extended Benefits programs. Management uses the ETA 227 report to collect and report overpayment data on UI claims that result from claimant, employer, and/or agency errors and fraud. USDOL uses the ETA 227 report to calculate performance measures and to monitor the department's benefit payment process.

To determine the accuracy of ETA 227 reports, USDOL requires state agencies to upload electronic files, referred to as populations, into its SUN system. Data validation software compares reported amounts with the information in the populations to identify invalid, missing, and duplicate report data. State agencies are required to validate reported data every third year, except for data elements used to calculate Government Performance and Results Act measures, which they must validate annually. Our review of prior data validation submissions indicated that the department was required to submit three populations for the ETA 227 report to USDOL by June 10, 2017: Overpayments Established by Cause, Overpayment Reconciliation Activities, and Age of Overpayments.

During fiscal year 2016, the department could not submit ETA 227 reports because of technical difficulties with the Geographic Solutions Unemployment System (GUS), the new unemployment system developed by third-party vendor Geographic Solutions, Inc. In response to our prior audit finding, the department began manually entering data into the SUN system based on reports provided by Geographic Solutions, Inc.

Conditions and Criteria

Uncorroborated and Inaccurate Information

As of November 20, 2017, the department had not submitted any of the three populations for data validation because GUS could not produce reliable electronic files. Without the extract files, we were unable to fully evaluate the accuracy and completeness of the department's ETA 227 reports.

In order to determine the accuracy of the reported amount of overpayments recovered, we compared journals in Edison, the state's accounting system, with Line 302: *Recovered – Total* on the ETA 227 report. Based on our review of the ETA 227 report for the quarter ending June 30, 2017, we found significant discrepancies between the reported amounts and those recorded in Edison; see **Table 1** below.

Table 1
Overpayment Recoveries Comparison
April 1, 2017, Through June 30, 2017

	ETA 227	Edison	Difference
Unemployment Insurance	\$6,510,579	\$1,328,353	\$5,182,226
Unemployment Compensation for Federal Employees and Unemployment Compensation for Ex-Servicemembers	\$36,312	\$21,102	\$15,210
Extended Benefits	\$427,842	\$46,938	\$380,904

Aside from the information on Line 302 of the report, we were unable to identify any other records outside of GUS to compare with information on the ETA 227.

As stated in “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, *Code of Federal Regulations*, Part 200, Section 302,

- (a) . . . the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions . . .
- (b) The financial management system of each non-Federal entity must provide for the following . . . [a]ccurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements.

Reports Submitted Late

Our audit work also revealed that the department did not submit the ETA 227 reports for the quarters that ended on September 30, 2016, and December 31, 2016, until April 25, 2017. The UI Report 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 2** for the due dates and submission dates for the ETA 227 quarterly reports.

Table 2
ETA 227 Report Dates

Report for Quarter Ended	Due Date	Submission Date	Days Late
September 30, 2016	October 1, 2016	April 25, 2017	175
December 31, 2016	February 1, 2016	April 25, 2017	83
March 31, 2017	May 1, 2017	April 26, 2017	0
June 30, 2017	August 1, 2017	July 28, 2017	0

Cause

According to the Director of UI Integrity, technical difficulties with GUS prevented the department from submitting the populations of overpayments and accurate, timely ETA 227 reports. He stated that Geographic Solutions, Inc. intends to resolve the issues with the extract files by 2018, that the department is continually working with the vendor on the ETA 227 report, and that resolving the reporting errors remains a high priority.

Given the problems identified during our fieldwork, we also reviewed the department’s December 2016 Financial Integrity Act Risk Assessment. Management identified data review and a calendar with report due dates as controls that reduced the risk of inaccurate and late reporting, but did not address the risk of reporting errors and delays caused by technical difficulties with GUS.

Effect

The UI Report 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 accurate and timely reports, USDOL is unable to effectively 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 the department from submitting extract files for data validation;

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 the new unemployment insurance system.

Management's Comment

We concur in part.

The department has been timely with the ETA 227 report for the past year and federal funding has not been affected by this finding.

USDOL allows for submission of a corrected report up to one year after the due date. We submitted a correction well within the allotted time frame, and auditors were made aware of the correction prior to the department being notified of the finding.

The difference of \$5,182,226 as noted in Table 1 above in the ETA 227 report was a sorting mistake by agency staff that included more data than should have been reported. As allowed in UI Reports Handbook 401, we amended the incorrect report and now there is 0% difference between the ETA 227 and Edison, which is the financial system of record for all established overpayments and collections.

As noted by the auditors, we are required to validate the reported data every third year. We are currently working with the vendor to correct some of the remaining populations used for data validation.

Also, the department's risk assessment for fiscal year ended June 30, 2017, already includes risks regarding report timeliness and accuracy. These risks do not specifically mention the ETA 227 report.

Auditor's Comment

The department failed to submit the reports for the quarters ended September 30, 2016, and December 31, 2016, before their established due dates.

Management re-submitted the report for the quarter ended June 30, 2017, on November 30, 2017, *after* we notified them of the inaccurate overpayment recovery amount discussed in this finding.

By federal requirement, the department must validate data used to calculate Government Performance and Results Act measures annually. As of January 31, 2018, management has still not submitted any of the three populations for data validation.

Although management noted the risks of late and inaccurate reports in the risk assessment, the controls that they identified were insufficient as evidenced by this finding.

Finding Number	2017-050
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-29869-17-55-A-47
Federal Award Year	2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Employment Security Division did not have adequate controls over the ETA 902 report to ensure its accuracy and completeness

Background

After a federally declared disaster, the U.S. Department of Labor requires state agencies to submit monthly Employment and Training Administration (ETA) 902 reports containing data on disaster unemployment assistance activities. As a result of the Sevier County wildfires that burned from November 28 through December 9, 2016, Tennessee received a federal disaster designation on December 15, 2016. The Employment Security Division within the Department of Labor and Workforce Development administered the disaster unemployment benefits and therefore prepared ETA 902 reports during our audit period for the months of December 2016 through June 2017. Division personnel used the Geographic Solutions Unemployment System (GUS) to generate the reports.

Condition

1. The department did not have the necessary internal controls in place to ensure the accuracy of reported information. The Employment Specialist who prepared the ETA 902 reports relied exclusively on edit checks within the federal SUN information system rather than also seeking review and approval by her supervisor.
2. For 6 of 7 monthly ETA 902 reports submitted (86%), we could not replicate the information the department reported when we generated the reports from GUS ourselves. (See Table X for details.) The Employment Specialist stated there is no supporting documentation outside of GUS and no way to readily determine within GUS what information was valid at the time the reports were prepared and submitted. As a result, we could not verify the accuracy of these reports.
3. The department did not include administrative costs on any of the submitted ETA 902 reports although these costs were included in other unemployment insurance fiscal reports.

Table 1
Department's Variances From Auditor Totals on ETA 902 Report*

Report Line		December 2016			January 2017			February 2017			March 2017			April 2017			May 2017			
		Reported	Our Results	Difference	Reported	Our Results	Difference	Reported	Our Results	Difference	Reported	Our Results	Difference	Reported	Our Results	Difference	Reported	Our Results	Difference	
Initial Applications	Total	123	127	-4	41	42	-1	12	11	1	1	2	-1							
	Self-employed	0	9	-9	2	14	-12	1	3	-2	1	0	1							2
Number Determined Eligible	Total				8	33	-25	2	5	-3	0	1	-1							
	Self-employed	0	1	-1				0	3	-3										
First Payments		5	0	5	13	16	-3	13	9	4	10	2	8	10	1	9				
Weeks Compensated					65	72	-7	53	67	-14	56	61	-5	29	33	-4				
Amount Compensated					\$8,598	\$9,084	\$(486)	\$7,929	\$10,776	\$(2,847)	\$7,861	\$8,856	\$(995)	\$4,854	\$5,654	\$(800)				
Weeks of DUA Denied		12	30	-18	34	101	-67	36	34	2	35	18	17	0	2	-2	3	4	-1	
Appeals Filed - State	Total				3	4	-1													
	Self-employed				0	1	-1													
Appeals Filed - RA												1	0	1						
Appeals Disposed - State	Total											0	2	-2						
	Self-employed											0	1	-1						

* Normally, unemployment compensation is not available to self-employed individuals who are unemployed. The ETA 902 specifically identifies this population since disaster unemployment assistance is available to self-employed individuals whose unemployment has been found to be the direct result of a major disaster in the major disaster area.

Criteria

Title 2, *Code of Federal Regulations*, Part 200, Section 303(a), states that agencies should “[e]stablish 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.”

The ETA 902 reporting instructions specify,

If available on a monthly basis, entries are needed in these items [administrative costs] to monitor state agency expenditures and to support requests for additional administrative funds from FEMA. . . . If administrative costs are not available for the month to which data relate, to the extent possible, states should amend the report when the information becomes available. At a minimum, states should ensure the data are provided on a subsequent report during the quarter to which the data apply.

Cause

1. After the Employment Specialist submitted the ETA 902 reports, she provided them to the Unemployment Insurance Assistant Administrator and Director of Unemployment Insurance Integrity, neither of whom performed procedures to verify the reports’ accuracy.
2. According to the Employment Specialist and the Director of Unemployment Insurance Integrity, these variances could be a result of timing differences. However, we could not perform testwork to determine if timing differences were the cause of report differences since division personnel could not provide supporting documentation for reported values or details of changes.
3. The Employment Specialist stated that the administrative costs were not included in the ETA 902 reports because they were listed in other federal financial reports. After we brought this issue to her attention, the Employment Specialist then obtained the administrative costs and amended the submitted reports.

Effect

Without proper controls over the ETA 902 report, department management cannot ensure that it has reported complete and accurate information to the U.S. Department of Labor about unemployment funds provided to or denied to individuals impacted by a federal disaster.

Recommendation

Employment Security Division management should develop, document, and implement control processes to ensure compliance with federal requirements that the information included in the ETA 902 report is accurate, complete, and readily verifiable.

Management's Comment

We do not concur.

All federal reports are required to pass edit checks within the Sun System to ensure accuracy. Any inconsistencies or potential problems with reports are reviewed by management prior to submission.

Special program types, such as Disaster Unemployment Assistance (DUA), are often not static, because of varying eligibility requirements. Because these claims can move from Tennessee Unemployment Compensation (TUC) to DUA or vice versa, the reported amounts could change. This is especially the situation when the reports are pulled 5 to 11 months after the department submitted the reports. This is the cause for the minor variances in the reports.

An email from USDOL confirms that the administrative costs are also obtained from a separate federal report submitted by our contracted fiscal operations staff, and that it is perfectly acceptable to submit this information on a later ETA 902 report. The USDOL representative even goes on to say that this is common among other states. The Employment Specialist is now receiving the administrative cost information from our contracted fiscal operations staff.

Auditor's Comment

While the Sun system includes edit checks designed to ensure data falls within certain ranges, the system cannot ensure accuracy and reliability of the amounts reported on the ETA 902, thus requiring management's manual review of the report for accuracy. The Director of Unemployment Insurance Integrity stated that he looks at the report, but he does not perform any procedures to verify its accuracy.

Moreover, the department did not maintain documentation to support reported values for the ETA 902.

Management also did not provide any evidence that they obtained an exception from the federal grantor to allow the department to submit incomplete ETA 902 reports. It was only after we brought this issue to management's attention that they contacted USDOL, who informed the department that "the accuracy of monthly DUA Admin[istration costs] on the [ETA] 902 is not a huge thing It would be good if you could get some monthly estimates for the Admin[istration] fields on the 902... So yes, report something in the fields, even estimates." Therefore, management's description of the USDOL comment is inaccurate.

Finding Number	2017-051
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
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 Labor and Workforce Development did not accurately report earnings information due to conversion errors related to the new unemployment insurance system

Background

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 includes data about training, services, earnings, and employment outcomes for Trade Adjustment Assistance (TAA) program⁴⁹ participants.

Condition

We obtained the population of 1,739 TAA participants from the September 30, 2016, quarterly report extract, and 1,714 participants from the December 31, 2016, quarterly report extract, for a total of 3,453 participants. From this total, 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. For 30 of the 60 participants (50%), the department did not report individuals' earnings for the three quarters before they began participating in the TAA program.

⁴⁹ The USDOL describes TAA as "a federal entitlement program that assists U.S. workers who have lost or may lose their jobs as a result of foreign trade. This program seeks to provide adversely affected workers with opportunities to obtain the skills, credentials, resources, and support necessary to become reemployed."

Criteria

According to the *2012 Trade Activity Participant Report Data Preparation and Reporting Handbook*, the department must report “the total earnings from wage records” for the three quarters prior to participation for each participant listed on the TAPR.

Cause

According to the Grants Analyst 3 responsible for the report files, the data about the participants’ prior earnings was deleted from the tables used to prepare the TAPR report when the department converted to a new unemployment insurance system in May 2016. Based on our discussions with Workforce Services Division management, they were not aware that the TAPR did not include participants’ prior earnings as required. After we brought this error to their attention, the Grants Analyst 3 stated that the department was working with the information system vendor to retrieve the lost wage information and to restore the data to the report files.

Effect

When the department reports incomplete wage data, the USDOL cannot effectively measure participants’ performance outcomes or the efficacy of the TAA program.

Recommendation

Workforce Services Division management should continue to work with the vendor for the unemployment insurance system to resolve the data conversion issue and to ensure that earnings data is reported on the TAPR. In addition, management should develop and implement controls to ensure the accuracy and completeness of the information reported on the TAPR.

Management’s Comment

We concur in part.

The Tennessee Department of Labor and Workforce Development wage import and export process is fully functional and working properly.

The auditors did identify an issue on how the department reported participant wages that were prior to their participation. These individuals had participation dates from 1998-2011.

After root cause analysis, it was found that the vendor unintentionally overwrote wage records older than five (5) years, during the conversion of the department’s modernized UI system in May 2016. The wage import and export process only contains the most recent eight quarters. So the process did not rebuild the old wage table for participants who had participation dates older than 2011.

In order to correct the issue, the vendor is running a manual request for older wages, which will go back to 1998 and return those wages in the wage table which were not populated in the report. We will then rerun the TAPR reports and resubmit to USDOL.

Auditor's Comment

Regardless of whether the department's wage import and export process is working, the department could not produce an accurate report after the vendor deleted the wage records for participants. Three of the 12 key data elements on the TAPR report were participants' prior wages. Management's comments about participation dates are misleading because the individuals whose wage information was deleted represent half of the individuals on the September and December 2016 reports.

Finding Number	2017-052
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2016-057
Pass-Through Entity	N/A
Questioned Costs	N/A

Although the Department of Labor and Workforce Development improved maintenance of benefit non-charge documentation since the prior audit, it did not process all non-charges in a timely manner and could not provide the decision letters for all approved non-charges

Background

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. Employers pay quarterly payroll taxes into the program's trust fund, and the department disburses weekly unemployment benefits from the trust fund to eligible claimants.

New employers pay taxes at standardized rates, but established employers' rates vary depending on their experience rating, which measures an employer's overall history with the unemployment system, including taxes paid and benefits claimed by former employees who separated from that employer through no fault of their own. An employer with a disproportionate amount of benefits paid to former employees relative to the employer's trust fund contributions will generally have a correspondingly high unemployment tax rate. The department's Employment Security Division calculates experience ratings annually.

Upon receiving a claim for benefits, the department notifies the claimant's former employers whose experience rating may be affected if the claim is approved. Employers must communicate to the department 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 due to misconduct, or remained a part-time employee. Employers are required to complete and return the notice of claim filed with supporting evidence 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, Benefit 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. The information system generates a benefit non-charge decision letter to the employer. Benefit Charge Unit staff then digitize the employer's benefit non-charge request and supporting documentation for future reference.

Condition

In our *Single Audit Report* for 2016, we published a repeat finding on the department's inability to provide supporting documentation for 6 of 60 benefit non-charges tested (10%). 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 9,471. While the department improved document maintenance, we noted the following new problems with decision timeliness and employer notification:

- For 5 of 60 benefit non-charges tested (8%), the department did not process the non-charges in a timely manner. One non-charge was granted 233 days after the employer responded with the requested separation information. The other four non-charges lacked a date stamp; therefore, we could not determine when the department processed these items.
- For 6 of 60 benefit non-charges tested (10%), the department could not locate the decision letter notifying the employer of the approved non-charge.

Criteria

Under Sections 50-7-303 and 50-7-403(d)(1)(B), *Tennessee Code Annotated*, no employer's account will be charged for benefits paid to an employee who

- voluntarily quit without good cause attributable to the employer;
- was discharged for misconduct connected with his or her work; or
- maintained part-time status with the employer.

The employer must establish that fact by submitting information to the department within 15 days of the mailing date of the notice of claim filed.

The U.S. Department of Labor 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

The Director of Unemployment Insurance Integrity attributed the problems we identified to a new information system the department implemented in May 2016. Initially, the new system did not

alert Benefit Charge Unit personnel when employers responded electronically to notices of claims filed. Consequently, the Benefit Charge Unit accumulated a backlog of over 500 employer responses which were processed and tracked manually. The department corrected the flaw in the information system in late 2016.

Management could not explain why the department could not locate some non-charge determination letters. The Director of Unemployment Insurance Integrity stated that the unemployment information system may have generated, but not automatically stored, these letters.

Effect

When the department does not maintain adequate documentation, management cannot ensure that all benefit non-charges are granted in accordance with Sections 50-7-303 and 50-7-403(d)(1)(B), *Tennessee Code Annotated*, and the U.S. Department of Labor Employment and Training Handbook No. 407. Without processing benefit non-charges in a timely manner and notifying employers of approved benefit non-charges, there is increased risk that employer experience ratings and premiums will not be correctly calculated.

Recommendation

Management should ensure that benefit charge documentation is adequately stored and readily available for examination. Additionally, the department should ensure that the benefit non-charges are processed in a timely manner and that the department's information system is generating and storing letters to notify employers of benefit charge decisions.

Management's Comment

We concur.

We agree with the auditor that we have made improvement in document maintenance for benefit non-charge records.

However, workflow and functionality issues, which arose with the implementation of the new unemployment system in May 2016, caused a backlog of approximately 500 non-charge requests and the issues were corrected on October 4, 2016. The department worked through the backlog and non-charge determinations were issued. The backlog was eliminated as of the middle of June 2017.

Due to a temporary glitch in the system, the system did not store a record of some determinations that were sent to employers. While the record of the letters being generated was not stored in the system, all of the affected employers have access to the system and, upon logging in, can see immediately any charges associated with their account. The issues with letters not going out was discovered and reported to the vendor on July 18, 2017, and was corrected on July 20, 2017.

Finding Number	2017-053
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2010 through 2017
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 sometimes did not apply interest to unemployment benefit overpayments or send benefit overpayment statements via postal or electronic mail, contributing to a \$2.3 million decrease in collections

Background

The Department of Labor and Workforce Development provides Unemployment Insurance (UI) benefits to individuals who meet certain eligibility criteria. When an individual receives benefits to which he or she is not entitled, whether due to error or fraud, the department establishes an overpayment. Claimants must repay overpayments to the department. The department also applies penalties and interest when it determines a claimant's fraudulent acts caused the overpayment. The department's UI Recovery unit is responsible for collecting overpayments, penalties, and interest from claimants.

Condition

In May 2016, the department implemented a new information system to support UI functions, including establishing and collecting overpayments. For its first four months in operation, the new system sometimes did not apply monthly interest charges to fraud overpayments. Management could not provide us with the total number or dollar value of overpayments involved, or the total dollar value of unapplied interest, because they did not know how many fraud overpayments were affected.

Upon discovering this problem after the new system launched, management stopped sending all debtors their monthly benefit overpayment statements via postal mail and email. Benefit overpayment statements display the claimant's overpayment balance at the beginning of the month, accrued overpayment interest charges (if any), the ending balance due, and payment

instructions. The former Director of UI Recovery⁵⁰ decided to discontinue mailed monthly statements to avoid confusing or misinforming claimants about their overpayment balances. When we inquired whether the department could have discontinued the monthly statements only for claimants whose balances were affected, management explained that they were unable to separately identify the affected claimants. Furthermore, the new system did not allow management to stop mailing fraud overpayment statements but continue mailing non-fraud overpayment statements.

The department continued to send these statements via the new system's online messaging feature, which claimants can access if they have registered for the department's new website and know how to check their messages. These electronically transmitted statements contained incorrect interest and balance information for some claimants with fraud overpayments. The current Director of UI Recovery explained that it was necessary to continue generating the statements via online messaging because doing so triggers the next steps in the overpayment collection process—such as intercepting claimants' federal tax refunds. As of December 19, 2017, the department still had not resumed sending these statements by postal mail and email.

When compared to the prior year, we observed that the department's overpayment debt recoveries it received from debtors in response to monthly statements had declined by 58% from \$4.02 million in fiscal year 2016 to \$1.70 million in fiscal year 2017.

Criteria

According to Section 50-7-715(c)(1), *Tennessee Code Annotated*,

The commissioner shall assess interest at a rate of no more than one and one-half percent (1.5%) per month on the total amount due that remains unpaid for a period of thirty (30) or more calendar days after the date on which the commissioner sends notice of the commissioner's determination that a violation has occurred to the last known address of the claimant.

Cause

Based on discussion with the Director of UI Recovery, data conversion errors affected overpayment records that were transitioned from the department's old to new information system. As a result, the new system was not able to apply monthly interest calculations to the fraudulent overpayments. As of December 19, 2017, the Director of UI Recovery was working to identify all overpayments at the time of conversion and calculate the correct amount of interest due on each overpayment that had resulted from fraudulent activity. Management plans to direct the system's vendor to apply a mass fix to correct interest charges on affected overpayment accounts.

Effect

Overpayment interest serves as a punishment for those who defraud the state's unemployment system. Furthermore, it helps discourage repeat violations since claimants must repay all

⁵⁰ Department management discharged the former Director of UI Recovery in October 2017 and appointed the current Director of UI Recovery afterward.

overpayments, interest, and penalties owed before they are eligible to collect more UI benefits. When the department's systems fail to apply interest properly, these claimants are neither penalized nor properly incentivized to quickly repay their debts.

By suspending benefit overpayment statement mailings, the department failed to adequately inform claimants of their debts and hampered overpayment recoveries. While we noted that the department continued to send statements via online messaging, individuals with claims predating the new system may not have received these communications.

Recommendation

Management should take steps to correctly calculate and apply interest to all fraud overpayment balances due. Management should also take all reasonable steps to ensure that claimants are notified of their obligations to repay the department for any overpayments of benefits in order to ensure the integrity of the Unemployment Insurance program.

Management's Comment

We concur in part.

The department did collect \$2.3 million less in overpayment collections than the previous year. However, it is unreasonable to think that collections should remain at the same level year after year, when there are multiple factors that affect the amount collected. There is no state or federal standard for how much a department should collect each year. As a part of the Governor's Customer Focused Government plan, the department set a goal of \$10 million and exceeded that goal by collecting \$13 million.

While it is correct that monthly statements, which serve as a reminder of the overpayment, were suspended due to some incorrect balances, the department adequately notified each overpaid claimant. For each overpayment written the claimant receives an overpayment determination letter, which provides them with the amount of the overpayment; penalty; interest, if applicable; repayment options; and contact information for the Recovery Unit.

Auditor's Comment

Management specifically told us that the suspension of mailed statements is likely the main cause for the 58% decline in overpayment recoveries. Furthermore, the lack of state or federal collection standards does not diminish the department's responsibility to recoup improper payments.

Management provided no evidence the department adequately notified each overpaid claimant of account balance changes such as interest accruals. Also, because overpayment determination letters are mailed when the overpayment is first established, for claimants with long outstanding balances, the one-time letter is not an effective tool for the collection of overpayments.

Finding Number	2017-054
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
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 lacked controls to ensure the accuracy and timeliness of data transmitted to the Internal Revenue Service, increasing the risk of incorrect federal unemployment tax assessments

Background

Tennessee employers are subject to state and federal unemployment taxes. The Department of Labor and Workforce Development deposits state taxes into a trust fund from which it pays unemployment benefits to eligible claimants. The Internal Revenue Service collects federal taxes, which the United States government uses to help fund state unemployment agencies and programs.

When employers pay their state unemployment taxes timely and in full, the Internal Revenue Service grants them a federal unemployment tax credit. The maximum credit reduces an employer's federal unemployment tax rate from 6% to 0.6%.

The Internal Revenue Service administers the annual Federal Tax Unemployment Act (FUTA) Certification Program, a cross match to ensure employers who claimed the credit paid both state and federal taxes. Federal regulations require the Department of Labor and Workforce Development to participate in the FUTA Certification Program by providing the Internal Revenue Service with state unemployment tax data for Tennessee employers that claimed the credit.

Condition

We reviewed the Department of Labor and Workforce Development's fiscal year 2017 performance of the FUTA Certification Program and determined

- the department's Division of Employer Accounts did not perform a quality review of FUTA certification data prior to its transmission to the Internal Revenue Service; and

- the department's Division of Information Technology lacked documentation to verify the department transmitted FUTA certification data to the Internal Revenue Service timely.

Given the problems identified during our fieldwork, we also reviewed the department's Financial Integrity Act Risk Assessment. We determined that management's risk assessment did not address the risk of submitting inaccurate FUTA certification data to the Internal Revenue Service or the risk of submitting this information late.

Criteria

Internal Revenue Service Publication 4485, *Guide for the Certification of State FUTA Credits*, provides FUTA Certification Program instructions to state workforce agencies.

- Section 11 of Publication 4485 advises states to conduct a data quality review prior to transmission to the Internal Revenue Service. Quality review procedures include manual verification of a sample of employer records in the data. Publication 4485 directs states to save the results of the review for future reference.
- Section 2 of Publication 4485 advises states to return FUTA Certification Program data to the Internal Revenue Service by January 31 each year.

Cause

The Programmer/Analyst responsible for performing the certification explained that the last employee responsible for this area retired and did not offer training in data quality review processes before his retirement.

The Information Systems Manager responsible for transmitting FUTA Certification Program data to the Internal Revenue Service explained she submitted the data before the January 31 deadline and received a confirmation email. However, the manager did not archive a copy, and she could no longer retrieve it by the time we started our audit. Without this supporting evidence, we could not conclude the department complied with the January 31 submission deadline.

Effect

By failing to perform quality review procedures, the department increases the risk of transmitting inaccurate data to the Internal Revenue Service. This could cause the Internal Revenue Service to incorrectly assess Tennessee employers' federal unemployment tax liability.

The department's timely submission of FUTA Certification Program data is critical. As stated in Publication 4485, "any delay may cause adverse reactions from taxpayers because of delays in receiving letters of proposed tax increase or decreases, refunds for tax decreases, or bills for any tax, penalty, and interest which is determined due."

Recommendation

The Programmer/Analyst should generate sample files for data quality testing and provide these to the Director of Employer Accounts. The Director of Employer Accounts should assign personnel to manually verify the accuracy of the sample files, as prescribed in Internal Revenue Service Publication 4485 and should maintain documentation to support the performance of the data quality review. Additionally, the Information Systems Manager should maintain documentation in support of the department's transmission of the annual FUTA certification data file.

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.

Beginning with Certification Year 2016, which was conducted in January 2018, the Director of Employer Accounts documented a quality review of the FUTA certification. Also, the Information Systems Manager archived the email notification of the FUTA file submission. This documentation was maintained on a secured drive.

The department's risk assessment for fiscal year ended June 30, 2017, already includes risks regarding report timeliness and accuracy. These risks do not specifically mention the FUTA Certification.

Auditor's Comment

As management stated, they did not conduct a review of the FUTA certification file or document its submission until January 2018, after we advised them of this finding of noncompliance. Additionally, management's comment regarding the risk assessment suggests the risk of inaccurate and untimely FUTA reports has been mitigated; however, given this finding, we disagree.

Finding Number	2017-055
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2011 and 2014 through 2017
Finding Type	Other
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2016-060
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, we were unable to access federal tax information needed to fulfill our audit objectives due to restrictions imposed by the Internal Revenue Service

Background and Criteria

To ensure the integrity of the Unemployment Insurance program, the U.S. Department of Labor (USDOL) mandates that the Tennessee Department of Labor and Workforce Development (the department) 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 Section 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.

During our prior two audits, the department was unable to provide us with information about Treasury Offset Program recoveries due to restrictions imposed by the Internal Revenue Service (IRS).

Condition

For our overpayments testwork, we selected 60 of the 1,521 benefit overpayments that were established due to claimant fraud in fiscal year 2017. In total, our testwork encompassed \$86,390 of the \$2,304,703 fraudulent overpayments. The department used the Treasury Offset Program in its collection of 6 of the overpayments we selected for testwork. Department management and staff declined to provide us with the amounts collected via the Treasury Offset Program due to IRS Federal Tax Information disclosure limitations. Since neither the USDOL nor the IRS addressed the conflict between the Compliance Supplement and the Internal Revenue Code (IRC), we were unable to trace the collections to the state's account in the Unemployment Trust Fund as required.

Cause

According to the former Director of UI Recovery,⁵¹ the department could not share data regarding overpayment recoveries collected through the Treasury Offset Program with us due to the IRS' restrictions. During our fiscal year 2015 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 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. Although IRS personnel indicated that the IRS and USDOL needed to resolve the apparent conflict between the Compliance Supplement and the IRS safeguard requirements, they did not take further action.

Effect

Without access to federal tax information, we were unable to assess whether penalties due to fraud were properly deposited into the state's Unemployment Trust Fund and could not achieve our audit objectives related to overpayment recoveries.

⁵¹ The former Director of UI Recovery separated from the department on October 24, 2017.

Recommendation

Management should, in coordination with the USDOL and the IRS, attempt to resolve the issues surrounding auditors' access to federal tax information.

Management's Comment

We concur in part.

We concur that the auditors are not allowed access to this federal tax information.

The department is prohibited from providing them with access to the data, due to IRC 6103(l)(10), which prohibits the department from sharing the data with the auditors. So, federal law prohibits us from sharing this data with the auditors.

On January 9, 2015, the US DOL issued *Unemployment Insurance Program Letter No. 2-09 Change 3, Recovery of Unpaid Unemployment Insurance Employer Tax Debt Under the Treasury Offset Program*. This US DOL guidance states, "IRS Counsel determined that...[t]he authority for contractors to access TOP Federal Tax Information (FTI) is dependent upon the statute under which TOP FTI is received...no contractors may be granted access to UC TOP FTI received under IRC 6103(l)(10) for benefits administration."

Since we receive this data under IRC 6103(l)(10) and the IRS considers the auditors to be contractors, we are prohibited by federal law from providing this data to the auditors. Therefore, we have complied with the law by denying the auditors' access to this data.

We do not concur:

We do not concur with the auditors' recommendation that we should involve ourselves between the USDOL and the IRS, in an attempt to resolve this issue. The recommendation should be addressed to someone who has the authority to address the situation as the Tennessee Department of Labor and Workforce Development has no authority to address this situation.

Finding Number	2017-056
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-25232-14-55-A-47, UI-26421-14-60-A-47, UI-26562-15-55-A-47, UI-27930-15-55-A-47, UI-27885-16-55-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures, V002A140043, V002A150043, V002A160043
Federal Award Year	2011 and 2014 through 2017
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2016-063
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, the Department of Labor and Workforce Development did not provide adequate internal controls in one specific area

The Department of Labor and Workforce Development did not provide adequate internal controls in one specific area related to eight of the department's systems. Although management agreed that internal controls needed to be improved and provided details of corrective action in their response to the prior-year finding, we are reporting internal control deficiencies 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.

The department delivered a confidential response.

Finding Number	2017-057
CFDA Number	93.568
Program Name	Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services
State Agency	Tennessee Housing Development Agency
Federal Award Identification Number	G-1301TNLIEA, G-1401TNLIEA, G-1501TNLIEA, G-1601TNLIEA, G-1701TNLIEA
Federal Award Year	2013 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Period of Performance Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Tennessee Housing Development Agency’s central office administrative expenses for the Low-Income Home Energy Assistance Program were not obligated within the proper timeframe

Condition

Period of Performance

The Tennessee Housing Development Agency (THDA) improperly charged central office administrative expenses totaling \$446,390.03 that were incurred in state fiscal year 2017 to its Low-Income Home Energy Assistance Program (LIHEAP) federal fiscal year 2014 grant award. These expenses should have been charged to subsequent federal fiscal year grant awards as applicable.

Reporting

THDA improperly reported the “unobligated balance of Federal funds” on the SF-425 (Federal Financial Report) for the FFY 2016 LIHEAP grant award as zero. Based on documentation provided by THDA, \$1,336,507 was unobligated as of the filing of the report.

THDA also improperly reported the “reallotment amount” on the LIHEAP Carryover and Reallotment Report for the federal fiscal year 2016 grant as zero, and should have submitted a revised report. Based on documentation we obtained from THDA, the agency should have reported \$1,336,507 instead.

Criteria

According to the *Code of Federal Regulations*, LIHEAP block grants for allotments during and after 1994 must be obligated within two fiscal years from the time of the grant (45 CFR 96.14). For the federal fiscal year 2014 grant, this cutoff date was September 30, 2015. For the federal fiscal year 2016 grant, this cutoff date was September 30, 2017. THDA did not obligate any

amounts for central office administrative costs by these cutoff dates beyond what had already been charged and drawn down for administration by these dates.

Period of Performance

At September 30, 2015, THDA had not obligated any funds from the federal fiscal year 2014 grant for central office administrative costs beyond \$141,895.21 charged prior to that date. Because no additional funds were obligated by the cutoff date for central office administrative costs, nothing should have been charged to the federal fiscal year 2014 grant in state fiscal year 2017.

Reporting

At September 30, 2017, THDA had not obligated any funds from the federal fiscal year 2016 grant for central office administrative costs, and should have reported any funds not already obligated by contracts with subrecipients as unobligated on their filing of the SF-425.

THDA also should have submitted a revised LIHEAP Carryover and Reallotment Report. Instructions to this report require that amounts not expected to be obligated be reported in the “reallotment amount” line item and be returned to the federal government. At September 30, 2017, THDA should have submitted a revision and reported any funds not already obligated by contracts with subrecipients in the “reallotment amount” line item.

Cause

THDA has not designed and implemented sufficient internal control procedures to ensure central office administrative expenses are not charged to federal grant awards whose period of availability has ended.

Effect

THDA improperly charged administrative costs to the federal fiscal year 2014 grant. THDA improperly reported the “unobligated balance of Federal funds” on the SF-425 for the federal fiscal year 2016 grant as zero and did not revise the LIHEAP Carryover and Reallotment Report as of September 30, 2017 to reflect unobligated funds in the “reallotment amount” line item for the federal fiscal year 2016 grant.

Recommendation

THDA should develop written internal control procedures to ensure compliance with period of performance requirements. THDA should reallocate all central office administrative costs to appropriate LIHEAP federal grant award years as necessary. THDA should submit revised SF-425 and LIHEAP Carryover and Reallotment Reports to disclose the true balance of unobligated funds.

Management's Comment

Period of Performance

We concur. THDA is implementing a process for LIHEAP administrative expenses that will allocate such expenses to the applicable LIHEAP grant year based on actual program expenditures. This allocation process will begin no later than for the quarter ending March 31, 2018.

Reporting

We concur. By May 31, 2018, THDA will (1) modify our processes and our plan requirements to ensure an obligation of all 2017 funds by the September 30, 2018, 100% obligation deadline and (2) institute a methodology to ensure accurate reporting of the "unobligated balance of Federal Funds" on the SF-425 (Federal Financial Report) and of the "reallotment amount" on the LIHEAP Carry-over and Reallotment report.

Finding Number	2017-058
CFDA Number	84.007, 84.033, 84.063, 84.268, and 84.379
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Austin Peay State University
Federal Award	
Identification Number	N/A
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Test and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Return of Title IV funds were not in compliance with federal regulations

Condition

We selected a sample of 42 students from a population of 592 Title IV aid recipients at Austin Peay State University who officially or unofficially withdrew from classes during the 2016-2017 award year. When we reperformed return of Title IV funds calculations, we found that the university did not perform its return of Title IV funds calculations in compliance with federal regulations for 15 of the 42 Title IV aid recipients tested (36%). For the Spring Semester 2017, the university did not exclude spring break week from the total number of calendar days in the period of enrollment and the number of calendar days completed, resulting in an additional nine class days in the calculation. This error resulted in the university and some students returning more aid than required, while in other instances, the university and some students returned less than required.

Criteria

Title 34, *Code of Federal Regulations*, Part 668, Section 22(f)(2)(i), states that “scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in the period.” The *2016-2017 Federal Student Aid Handbook*, Volume 5, states that “where classes end on a Friday and do not resume until Monday following a one-week break, both weekends (four days) and the five weekdays would be excluded from the return calculation.”

Cause

The university did not have adequate procedures in place to ensure the Student Financial Aid Office properly calculated return of Title IV funds in compliance with federal regulations. Because the Registrar’s Office was not aware that Title 34, *Code of Federal Regulations*, Part 668, Section 22, required them to exclude spring break dates from the Banner forms, the Registrar’s Office did not exclude spring break days from the return of Title IV funds calculations.

Effect

The total return of Title IV funds calculated by the university was \$593,604. The total return of Title IV funds calculated by the university for the sample of 42 students was \$102,752. The corrected total for the 42 students was \$102,137, which is \$615 less than was returned to the U.S. Department of Education. Details of the over- and under-calculations are as follows:

Number of Students	Returns	Due from University			Due from Student		
		Original Calculation	Corrected Calculation	Difference	Original Calculation	Corrected Calculation	Difference
11	Over	\$35,947	\$34,831	(\$1,116)	\$16,078	\$15,502	(\$576)
4	Under	\$5,541	\$6,042	\$501	\$6,205	\$6,766	\$561

Recommendation

The Registrar's Office and the Student Financial Aid Office should ensure federal regulations are followed. While the Registrar's Office is responsible for entering the number of days in the period of enrollment, including breaks, into the Banner information system, the Student Financial Aid Office should verify that the Registrar's Office entered the information correctly. Management should ensure that the Student Financial Aid Office reperforms all return of Title IV funds calculations and makes necessary corrections to student and federal fund accounts.

Management's Comment

We concur with the finding and recommendation.

The Office of Student Financial Aid has detailed procedures in place for calculating the Return of Title IV funds; however, exclusion of break dates is part of the Office of the Registrar's annual set up in Banner when the academic calendar is developed.

After discussion with the Office of the Registrar, a review of scheduled breaks has been added to their annual set up procedures. In turn, the Office of Student Financial Aid has added a step to our annual new aid year set up procedures to send a reminder to ensure these break dates are entered in the student module when the academic calendar dates are established.

Finding Number	2017-059
CFDA Number	84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Austin Peay State University
Federal Award	
Identification Number	N/A
Federal Award Year	2017
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

Austin Peay State University did not have adequate policies and procedures to prevent, or to detect and correct, errors in enrollment reporting for the federal Direct Loan Program

Condition

We tested a sample of 25 Direct Loan borrowers at Austin Peay State University who had a status change during the year. We found that for 9 of the 25 students (36%), the Registrar's Office did not report the change in enrollment status timely. Eight of the students graduated on May 5, 2017, and the Registrar's Office did not report the change in status until we notified the office that notification had not been made. The Registrar's Office subsequently made the notification on July 18, 2017, which was 14 days late. The other student withdrew on March 2, 2017; however, the Registrar's Office did not report the student as having withdrawn until May 9, 2017, which was 8 days late.

Criteria

Title 34, *Code of Federal Regulations*, Part 685, Section 309(b), requires a school to report enrollment status changes on its next enrollment reporting roster, if to be submitted within 60 days; otherwise, the school must notify the U.S. Department of Education within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

Cause

The Registrar's Office did not report enrollment status changes timely because Information Systems' staff provided the wrong file to the Registrar's Office. The university had no policies or procedures in place to verify that the Registrar's Office uploaded the correct graduate file prior to submission. The Registrar stated the student that withdrew was reported late due to the untimely reporting by a faculty member.

Effect

A student's enrollment status determines eligibility for in-school status, deferment, and grace periods. Enrollment reporting in a timely and accurate manner is critical for effective management of the programs. Not accurately reporting enrollment status changes could result in the inappropriate granting of an in-school deferment or the failure to start the grace period or properly initiate the loan repayment process.

Recommendation

The Registrar should revise policies and procedures to include a process to ensure the Registrar's Office uploads and submits the correct graduate listing. The Registrar should also ensure that faculty are aware of reporting deadlines and the importance of reporting enrollment status changes.

Management's Comment

We concur with the finding and recommendation.

The Office of the Registrar has added two quality control steps to our current procedures that will require the Office of the Registrar to 1) compare the file sent with the graduation list and 2) log into the National Student Clearinghouse following submission of the graduation file and randomly check five (5) percent of the students on the list to confirm the correct file was submitted.

Additionally, the Office of the Registrar will continue to work with the Office of the Provost to improve communication in order to ensure that faculty are aware of the deadlines and are made aware of the importance of reporting changes in enrollment status. The faculty will continue to receive regular reminders during the semester to report enrollment changes immediately.

Finding Number	2017-060
CFDA Number	84.007, 84.033, 84.063, 84.268, and 84.379
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	East Tennessee State University
Federal Award	
Identification Number	N/A
Federal Award Year	2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$482 (84.063) \$1,263 (84.268)

The university did not comply with return of funds requirements for federal student financial aid

Condition

East Tennessee State University did not comply with return of funds requirements for federal student financial aid. For 21 of 40 federal student financial aid recipients tested who withdrew, dropped out, or were terminated from classes prior to completing 60% of the term for which the award was made, noncompliance occurred. Return of federal fund calculations are required for recipients who withdraw prior to the 60% point in the term.

For 17 of the students, staff in the Office of Financial Aid, calculating returns for official withdrawals, or staff in the Bursar's Office, calculating returns for unofficial withdrawals, incorrectly calculated the number of days in the term used in return of funds calculations. Federal regulations require that breaks of five or more consecutive days are excluded from the return calculation, as well as any adjacent weekend days where classes are not held. During the university's Spring Semester 2017, there was a spring break of five consecutive days (Monday through Friday). Classes were not held the Sunday before the break or on the Saturday and Sunday after the break. Therefore, this would require eight days to be subtracted from the days attended and from the total days in the term. However, in the case of 11 official withdrawals, the university made no adjustment for the break. In the case of six unofficial withdrawals, the adjustment made was improper (seven days instead of eight). Due to these errors, the university returned a net amount of \$593.33 more than necessary to the U.S. Department of Education (ED). Some amounts calculated were understated, and others were overstated.

In another case, the Banner system, used by the Office of Financial Aid in calculating refunds for official withdrawals, miscalculated the return of funds amount by \$359.51, resulting in an understatement of the return. In another case, financial aid personnel overstated the tuition and fee amount used in a calculation by \$369.25, causing an overpayment to ED of \$231.84. In two other instances, the university did not calculate returns on a timely basis and did not make returns within the time required (47 days and 53 days versus the required 45 days). Finally, we noted one

case in which \$1,088 of a calculated return amount of \$2,471 had never been returned to ED. More than a year had passed. (One of the timeliness errors also involved a miscalculation of the term length as described in the preceding paragraph.)

Criteria

Per Title 34, *Code of Federal Regulations* (CFR), 668.22(f)(2)(i), “The total number of calendar days in a payment period or period of enrollment includes all days within the period that the student was scheduled to complete, except that scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period.”

Per the 2017 *Federal Student Aid Handbook*, Volume 5, page 98, “A school must return unearned funds for which it is responsible as soon as possible but no later than 45 days from the determination of a student’s withdrawal.”

Cause

Financial aid personnel performed the return calculations for the official withdrawals using the Banner system, which allows the user to adjust for the breaks discussed above. However, the adjustment was not made. According to the Assistant Director of Financial Aid, the staff member was unaware of the requirement. Bursar’s Office staff performed the return calculations for unofficial withdrawals using software provided by the Department of Education, and mistakenly allowed seven days for the break instead of the required eight.

The cause of the Banner system miscalculation is not known. The Assistant Director of Financial Aid acknowledged that Banner calculations are assumed to be correct, and they are not further reviewed. She also explained that the error caused by entering the wrong tuition and fee amount was due to oversight, as were two of the three timeliness errors, one of which was two days late, and one of which was eight days late.

In the case where the college still appeared to owe ED \$1,088 of the calculated return amount more than a year after return calculations were performed, the Assistant Director of Financial Aid stated that “the amount returned to the program on November 17, 2016, was correct.” However, she could provide no evidence to refute our calculations. The college had not returned the amount as of November 28, 2017.

Effect

Not making the prescribed allowance for spring break distorted the percentage of federal aid earned by withdrawing students, and therefore caused errors in the amounts to be returned to the federal student aid programs and, in some cases, affected the amounts earned by the students themselves. In addition, in some cases, this caused calculation errors in the amounts owed by withdrawing students to the school.

Recommendation

The Director of Financial Aid should ensure that staff members are aware of the requirements promulgated by the U.S. Department of Education to accomplish correct and timely returns to the financial aid programs. The director should see that controls are in place to monitor return calculations, ensuring correct data entry and propriety of calculations.

Management's Comment

We concur with the finding and recommendation.

The Office of Financial Aid will review each student who withdrew, dropped out, or was terminated from class prior to completing 60% of the term for which an award was made. The Office of Financial Aid will correct any calculation errors with the U.S. Department of Education.

Measures have been taken to ensure timeliness of calculations and return of funds. Beginning January 2018, the university moved to a weekly review of Return of Title IV reports to ensure the timely processing and return of the unearned Title IV HEOA funds to applicable Federal programs.

Financial Aid staff responsible for Return of Title IV processing will be required to take the National Association of Student Financial Aid Administrators (NASFAA) Return of Title IV credentialing course/exam. Successful completion of both the course and exam will be required.

In the future, the Office of Financial Aid will meet with other university offices prior to the start of the financial aid year to review dates and ensure breaks more than 5 days in length are accounted for properly. The Office of Financial Aid will work with the Records Office to ensure the entire aid year is established in the Banner system rather than setting the calendar up term by term. Establishing the calendar in the Banner system for the entire financial aid year will better control the calendar and prevent errors in the future.

The University is in the process of moving all Return of Title IV calculation processing, official and unofficial, into the Banner system. Calculations will be performed by one office, the Office of Financial Aid, instead of being divided between the Bursar's Office and the Office of Financial Aid. This move will allow consistency in processing and assurance of a timely return. Moving all processing into the Banner system will require additional programming, and it is anticipated the programming will be completed by the end of May 2018. Following programming changes, all Return of Title IV processing will be performed by the Office of Financial Aid beginning summer of 2018.

Finding Number	2017-061
CFDA Number	84.007, 84.063, and 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Federal Award	
Identification Number	N/A
Federal Award Year	2016 and 2017
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

Return of Title IV funds were not in compliance with federal regulations

Condition

We selected a sample of 39 students from a population of 120 Title IV aid recipients at Tennessee State University who officially or unofficially withdrew from classes during the 2016-2017 award year. When we reperformed return of Title IV funds calculations, we found that the university did not perform its return of Title IV funds calculations in compliance with federal regulations for 20 of the 39 Title IV aid recipients tested (51%). For the Fall Semester 2016, the university did not exclude fall break week from the total number of calendar days in the period of enrollment and the number of calendar days completed, resulting in an additional six class days in the calculation. For the Spring semester 2017, the university recorded seven days for spring break instead of six and included an extra day in the semester. Because the days in the semester were incorrectly calculated, the date on which the student had earned his or her financial aid (and, therefore, the date past which no return of funds calculation would be necessary) was incorrect for the return of funds calculation. These errors resulted in the university returning more aid than required.

In addition, for 13 of 39 students tested (33%), financial aid personnel did not return Title IV funds to the Department of Education (ED) in a timely manner. The number of days that these funds were returned to ED ranged from 2 days late to 67 days late.

Criteria

Title 34, *Code of Federal Regulations* (CFR), Part 668, Section 22(f)(2)(i), states that “scheduled breaks of at least five consecutive days are excluded from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in the period.”

The *2016-2017 Federal Student Aid Handbook*, Volume 5, page 5-74, states, “[d]etermine the last day that class is held before a scheduled break—the next day is the first day of the scheduled break. The last day of the scheduled break is the day before the next class is held.”

According to the *2016-2017 Federal Student Aid Handbook*, Volume 3, page 3-4, “The number of weeks of instructional time is based on the period that begins on the first day of classes in the academic year and ends on the last day of classes or examinations.”

According to the *2016-2017 Federal Student Aid Handbook*, Volume 5, Page 5-98, “[a] school **must** return unearned funds for which it is responsible **as soon as possible but** no later than 45 days from the determination of a student’s withdrawal (emphasis in original).”

Cause

The university did not have adequate procedures in place to ensure the Student Financial Aid Office properly calculated return of Title IV funds in compliance with federal regulations and did so timely. For the Fall 2016 semester, the Registrar’s Office did not exclude fall break dates from the “Days in Period” amounts in Banner, the student information system. For the Spring 2017 semester, the Registrar’s Office recorded “Enrollment Break Days” as seven days instead of six days and recorded the “Enrollment End Date” as May 6, 2017 instead of May 5, 2017 (the last day of examinations) in Banner. The Registrar stated that these errors were due to oversight. The Student Financial Aid Office used these incorrect amounts for the return of Title IV funds calculations.

The Student Financial Aid Office could not explain why returns of Title IV funds were not processed timely.

Effect

The total return of Title IV funds calculated by the university was \$230,465. The total return of Title IV funds calculated by the university for the sample of 39 students was \$92,251. The corrected total to be returned by the university for the 39 students was \$91,199, which is \$1,052 less than was returned to the U.S. Department of Education. Returning Title IV funds to ED untimely could result in adverse actions against the university.

Recommendation

The Registrar’s Office and the Student Financial Aid Office should ensure federal regulations are followed. While the Registrar’s Office is responsible for entering the number of days in the period of enrollment, including breaks, into the Banner information system, the Student Financial Aid Office should verify that the Registrar’s Office entered the information correctly. Management should ensure that the Student Financial Aid Office reperforms all return of Title IV funds calculations and makes necessary corrections to student and federal fund accounts. Management should ensure that the Registrar’s Office to communicate any status change to the Financial Aid Office.

Management’s Comment

We concur. Daily reports are currently provided to the university’s Records Office and the Financial Aid Office of students who are no longer attending due to official withdrawal or due to reporting of nonattendance by faculty. The Financial Aid Office reviews these reports, calculates

the amount of aid that needs to be returned, adjusts students' accounts, and notifies students of all adjustments made.

To ensure compliance with federal regulations, the following corrective actions will be taken:

- Within two weeks of the first day of class, the Assistant Vice President for Financial Aid and Scholarships will verify that the published academic calendar aligns with the information in the Banner system. This verification will be performed to ensure the number of break days includes all applicable weekend days and the start and end dates of the semesters are accurate. The Assistant Vice President for Financial Aid and Scholarships will document this review in an email to the Registrar and the Vice President for Enrollment Management and Student Success.
- The Assistant Vice President for Financial Aid and Scholarships will review the parameters of the current daily report with the Office of Technology Services by March 31, 2018, to ensure all students are being captured so that the return of funds is accurate and timely. The results of the review will be reported to the Vice President for Enrollment Management and Student Success by April 30, 2018.
- The Registrar will ensure all status changes are communicated via email to the Assistant Vice President for Financial Aid and Scholarships at the time of determination.
- The Assistant Vice President for Financial Aid and Scholarships will recalculate all returns of Title IV funds and make necessary corrections to student and federal fund accounts by April 30, 2018. The Vice President for Enrollment Management and Student Success will document his review of the recalculations.

Finding Number	2017-062
CFDA Number	84.033
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee Technological University
Federal Award	
Identification Number	N/A
Federal Award Year	2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	\$48,717
Repeat Finding	N/A

Tennessee Technological University staff did not enter into written agreements with the non-institutional agencies or organizations providing employment under the Federal Work-Study program

Condition

Tennessee Technological University (TTU) did not properly obtain the required Federal Work-Study (FWS) written agreements detailing the work conditions for non-institutional employers. TTU received \$440,140.56 in total FWS payments throughout the year ended June 30, 2017; the amounts paid for work performed for non-institutional employers in that time period was \$48,716.26.

We reviewed the accounts of students who received FWS to identify all non-institutional employers and ascertain if written agreements with the non-institutional employers had been executed. We identified 66 non-institutional employers utilized for FWS through the TTU University Service Center. The University Service Center provides opportunities for students to apply learned academic objectives through participation in community service on and off campus. TTU did not have written agreements executed with any of the 66 non-institutional employers (100%) who employed TTU students through the FWS program throughout 2017. Once we informed the Director of Financial Aid of this matter, he started obtaining the required agreements.

Criteria

According to the *Code of Federal Regulations*, Title 34, Section 675.20(b):

If an institution wishes to have its students employed under this part by a Federal, State or local public agency, or a private nonprofit or for-profit organization, it shall enter into a written agreement with that agency or organization. The agreement must set forth the FWS work conditions. The agreement must indicate whether the institution or the agency or organization shall pay the students employed, except that the agreement between an institution and a for-profit organization must require the employer to pay the non-Federal share of the student earnings.

Cause

The Director of Financial Aid did not verify that non-institutional contracts were being maintained as required. According to the Director of Financial Aid, he had not collected the necessary written agreements with non-institutional employers due to a lack of communication between himself and the University Service Center Assistant Director.

Effect

The university was not in compliance with a special tests and provisions compliance requirement for the Federal Work-Study program.

Recommendation

The Director of Financial Aid and the Assistant Director for the University Service Center should work together to ensure compliance with FWS requirements as set forth in the *Code of Federal Regulations*. The Financial Aid Office and the University Service Center should develop a system of collecting and maintaining non-institutional employer contracts prior to student FWS activity. The Director of Financial Aid should make sure that continuing education is provided for Financial Aid and University Service Center staff to ensure familiarity with FWS compliance requirements.

Management's Comment

We concur.

When this issue was identified, we understood that we were not compliant with this regulation. We quickly began the process of becoming compliant. The following steps were made:

- | | |
|-----------|---|
| 8/22/2017 | Copy of FSA Handbook Off-Campus Work-Study Agreement forwarded to University Counsel and Secretary to the Board, Kae Carpenter. |
| 9/1/2017 | Working with Ms. Carpenter over the period of a week, the document met with her approval. |

After this process was completed, we began identifying all students working at an off-campus site and sending them an email to provide us a copy of the Off-Campus Agreement from their employer. In addition, we contacted each employer and asked that they complete the form, one for 2016-17 and another to set up 2017-18.

We received 100% of the documents back. This was accomplished after the audit finding was discussed with State Audit personnel. To comply with federal regulations, we understand that this document must be in place prior to a student earning hours at off-campus sites.

We have made the decision to handle all off-campus assignments internally within the Office of Financial Aid in order to avoid issues with agreements, timesheets and proper paying of student workers.

Finding Number	2017-063
CFDA Number	84.033 and 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Volunteer State Community College
Federal Award Identification Number	E-P033A163942, E-P033A166522, E-P033A166508, E-P268K163262, and E-P268K173262
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Test and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The college did not return unearned funds timely to the U.S. Department of Education for students who withdrew from classes

Condition

We reviewed the accounts of 40 students who received Title IV financial aid and withdrew, dropped, or were terminated from classes at any point during the year ended June 30, 2017. For 5 of 40 students' accounts tested, Financial Aid personnel did not return Title IV funds to the U.S. Department of Education in a timely manner. These funds were returned to the department from 47 to 231 days after determination of the student's withdrawal (2 to 186 days late).

Criteria

According to the 2016-2017 *Federal Student Aid Handbook*, Volume 5, Page 98, "A school **must** return unearned funds for which it is responsible **as soon as possible but** [emphasis in original] no later than 45 days from the determination of a student's withdrawal."

Cause

In one case, the student requested an official withdrawal effective February 2, 2017; however, according to the Director of Financial Aid, the staff recording the withdrawal did not drop the student from all enrolled classes in Banner, which prevented the student from being categorized as officially withdrawn from the school. According to the Director of Financial Aid, the additional classes were dropped in Banner on June 19, 2017 (137 days after the effective date of the withdrawal). The funds were returned on August 7, 2017, 186 days after the effective date of the withdrawal (141 days late).

In another case, the student died and was officially withdrawn from the school. We observed evidence the school was aware of the student's death within two days; however, we were not able to determine, nor were staff able to explain, why the return was not completed for another 231 days (186 days late).

The other three students had funds returned from 47 to 58 days after official withdrawal (2 to 13 days late). The Director of Financial Aid was not certain of the specific reasons for returns being late but stated that a contributing factor may have been that reports of withdrawn students were not run often enough for the office to process the returns by the deadline.

Effect

Returning Title IV funds after the deadline could result in adverse actions against the college by the Department of Education.

Recommendation

The Director of Financial Aid should consider running reports of withdrawn students more often to identify official withdrawals and begin the return process more timely. Management should ensure staff understand the importance of properly recording all official withdrawals immediately to allow the Financial Aid Office more time to process returns.

Since staff were not always certain of the reasons for noncompliance, the President should consider requesting additional monitoring of returns by Internal Audit to determine if the corrective actions taken are effective. If they are not, steps should be taken to identify the true causes of the noncompliance and determine the proper corrective action.

Management's Comment

Management concurs with this finding and agrees that the institution will establish procedures that allow for the timely return of unearned federal funds. The Director of Admissions/College Registrar, the Vice President for Student Services, and the Director of Financial Aid will establish procedures to be performed weekly ensuring the 45-day timeline for return of unearned funds is met. These actions will be completed by February 28, 2018.

Finding Number	2017-064
CFDA Number	10.553, 10.555, 10.556, 10.559, and 10.558
Program Name	Child Nutrition Cluster Child and Adult Food Care Program
Federal Agency	Department of Agriculture
State Agency	Department of Education Department of Human Services
Federal Award Identification Number	2014(CN&IN)109945, 2015IN109945, 201616(15)N109945, 201616N109945, and 201717N109945
Federal Award Year	2014 through 2017
Finding Type	Material Weakness
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility Matching, Level of Effort, Earmarking (10.553, 10.555, 10.556, 10.559) Period of Performance (10.553, 10.555, 10.556, 10.559) Reporting
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Education and the Department of Human Services did not ensure that the internal controls related to the vendor-owned Tennessee: Meals, Accounting, and Claiming application and the Tennessee Information Payment System application, respectively, were appropriately designed and operating effectively

Background

The Tennessee Department of Education (TDOE) and the Tennessee Department of Human Services (DHS) have both contracted with an information technology (IT) vendor to establish the Tennessee: Meals, Accounting, and Claiming (TMAC) application and the Tennessee Information Payment System (TIPS) application, respectively. These computer applications process eligibility applications and meal reimbursement claims for the Child Nutrition Cluster⁵² and the Child and Adult Care Food Program (CACFP). They also collect and house data that is used for eligibility determinations and performance reporting to the U.S. Department of Agriculture and maintain the source documentation for payments related to these programs.

The IT contractor developed and currently maintains the TMAC and TIPS applications and provides access to both through a web-based solution on the Internet. The application software and food program data are stored and processed in the cloud at a data center that the IT contractor's vendor manages. TDOE and DHS data are housed in separate data centers.

⁵² The Child Nutrition Cluster consists of the School Breakfast Program, the National School Lunch Program, and the Special Milk Program for Children, which TDOE administers, as well as the Summer Food Service Program, which DHS administers.

Condition

Although federal regulations require them to do so, neither TDOE nor DHS management evaluated whether the IT contractor implemented any controls over the processing and storage of food program data or whether the controls implemented were designed and operating effectively to ensure the departments could properly administer the federal programs. Management did not evaluate internal controls either internally or by obtaining and reviewing an independent audit report, such as a System and Organization Controls (SOC) audit report,⁵³ which would adequately describe the IT contractor's internal controls and the auditor's opinion regarding the effectiveness of controls. The IT contractor did not have a SOC audit that applied to the audit period, but the IT contractor did obtain and submit to the departments the most current SOC 2 Type 2 audit report on the controls at the data center hosting sites. The scope of the SOC audit, however, ended eight months prior to the end of our audit scope, and the departments did not obtain assurance from the IT contractor that controls at the data center hosting vendor did not change significantly during that time.⁵⁴

Since an independent audit of the IT contractor was not performed, we asked the departments to obtain information about internal controls from the IT contractor for purposes of our federal program audit. Although both departments' contract with the IT contractor provided our office the right to audit all "books and records" of the IT contractor, which we believe includes the right to obtain information about internal controls that we request for an audit, the IT contractor refused to comply with the request for information unless the departments agreed to pay the IT contractor for obtaining and providing the information. As a result, we were not able to understand and evaluate the IT contractor's internal controls that were relevant for the federal programs we were auditing. Furthermore, the SOC report for the data center hosting vendor stated that controls tested at the data centers were effective if controls at the IT contractor were operating effectively. Since we do not know whether controls at the IT contractor were implemented or operating effectively, and because the SOC audit for the data centers did not include eight months of our audit period, we were unable to rely on the SOC audit and unable to determine whether controls at the data centers were operating effectively.

Criteria

According to Section D.12., "Monitoring," of the IT contractor's contract, "The Contractor's activities conducted and records maintained pursuant to this Contract shall be subject to monitoring and evaluation by the State, the Comptroller of the Treasury, or their duly appointed representatives."

⁵³ SOC audits are completed by Certified Public Accountants in accordance with American Institute of Certified Public Accountants standards and are applicable to service organizations such as the IT contractor and data center hosting vendor. The SOC 1 Type 2 and the SOC 2 Type 2 reports provide the most information to management and other auditors regarding the design and effectiveness of internal controls. The former focuses on internal control over financial reporting, and the latter focuses on data security, availability, processing integrity, confidentiality, and/or privacy.

⁵⁴ The scope of the SOC report was for the period November 1, 2015, through October 31, 2016, and our audit period ended June 30, 2017. A gap, or bridge, letter from the data center hosting vendor to the IT contractor would provide information about whether the vendor believes there have been any material changes in the control environment that would change the auditor's opinion in the most recent SOC audit.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) provides a comprehensive framework for internal control practices in federal agencies and serves as a best practice for other government agencies, including state agencies. According to Sections 3.09 through 3.11 of the Green Book,

Management develops and maintains documentation of its internal control system.

Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. . . .

Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity.

"Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," Title 2, *Code of Federal Regulations*, Part 600, 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.

Cause

The state's Central Procurement Office and both departments did not include language in the contract that required an independent audit of the IT contractor's internal controls. Additionally, the departments' procedures did not provide for a review of the IT contractor's internal controls to ensure they were appropriately designed and operating effectively, both prior to the awarding of the contract and on an ongoing basis.

Effect

TDOE and DHS processed approximately \$390 million and \$60 million, respectively, in reimbursements to Child Nutrition and CACFP subrecipients in fiscal year 2017. Failure to provide an independent audit of internal controls over TMAC and TIPS prevents the departments' managements from obtaining assurance that the reimbursements processed and information collected is accurate, complete, and complies with federal requirements governing allowable activities; cost principles; eligibility; matching, level of effort, earmarking; period of performance; and reporting. Because the IT contractor did not disclose information about its internal controls during fieldwork, we cannot conclude on whether controls were implemented or operating effectively. Furthermore, without knowing whether the IT contractor implemented any controls, we could not rely on the data center hosting vendor's audit report. We were unable to achieve our audit objectives related to critical system controls.

Recommendation

Each department should ensure that internal controls related to their applications are appropriately designed and operating effectively. In addition, for future contracts with contractors that will be hosting services in the cloud, the departments should obtain an understanding of internal controls and assess control risks associated with proper administration of the federal grants prior to awarding the contract. Also, the departments should work with the Central Procurement Office to ensure that future contracts of this nature include language that requires annual audits of internal controls, such as a SOC 1 Type 2 audit or a SOC 2 Type 2 audit.

Management's Comments

Department of Education

We concur that the department should ensure internal controls related to the Tennessee: Meals, Accounting, and Claiming application are designed and operating effectively. The department will work with the supplier and with the Central Procurement Office to explore options and help ensure that contracts for data services contain provisions around internal control requirements and documentation needs.

Department of Human Services

We concur.

The Department of Human Services consistently complies with all Procurement Commission policies and requirements. It is critical to note that at the time the current contract was executed, the Procurement Commission had no policies in place for requiring language specific to requesting a SOC2 type validation on an annual basis in the contract language requirements. When the current contract is up for renewal, DHS will include language for both the primary vendor and the hosting vendor regarding data security validation certification.

In the interim, DHS is considering alternate methods to mitigate these concerns.

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, 2017

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-15-8-053 Wood		PC-15-8-053	\$ 27,304.87	\$ -
Subtotal Peace Corps				\$ 27,304.87	\$ -
Department of Agriculture					
10.001	Agricultural Research_Basic and Applied Research			\$ 1,867,918.50	\$ -
10.025	Plant and Animal Disease, Pest Control, and Animal Care	Association of Research Directors	15-5000-1890-CA	\$ 1,189,652.96 34,665.80	-
				1,224,318.76	-
10.028	Wildlife Services			102.52	-
10.069	Conservation Reserve Program			8,397.50	-
10.168	Farmers Market Promotion Program			41,264.75	-
10.170	Specialty Crop Block Grant Program - Farm Bill			433,408.78	275,827.65
10.171	Organic Certification Cost Share Programs			11,909.77	11,909.77
10.200	Grants for Agricultural Research, Special Research Grants	University of Florida	1600472757	3,709.78	-
10.202	Cooperative Forestry Research			768,121.70	-
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act			6,906,943.57	-
10.215	Sustainable Agriculture Research and Education	University of Georgia	2014-38640-22155	\$ 35,024.74	
		University of Georgia	2015-38640-23780	176.37	
		University of Georgia	RD309-129/5054856	10,995.82	
		University of Georgia	RD309-129/S001037	2,231.34	
		University of Georgia	RD309-129/S001038	12,089.69	
		University of Georgia	RD309-134/S001154	949.52	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Virginia Polytechnic Institute and State University	2015-38640-23780	1,914.37	
					63,381.85
10.216	1890 Institution Capacity Building Grants	Alabama Agricultural and Mechanical University	2013-38821-21103	\$ 385,480.86 1,743.04	
					387,223.90
10.217	Higher Education - Institution Challenge Grants Program	University of Florida	UFDSP00011215	\$ 57,877.95 39,807.42	
					97,685.37
10.220	Higher Education - Multicultural Scholars Grant Program	North Carolina Agricultural and Technical State University	2014-38413-21797	\$ 91.30 20,418.86	
					20,510.16
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants				60,903.24
					18,035.00
10.304	Homeland Security_Agricultural	University of Florida University of Florida	UFDSP00010249 UFDSP00011548	\$ 41,449.98 2,427.63 23,142.19	
					67,019.80
10.310	Agriculture and Food Research Initiative (AFRI)	North Carolina State University University of Florida University of Maryland University of Maryland University of Maryland University of Maryland Utah State University	2015-0097-17 UFDSP00011147 25742002 Z552802 Z5775002 Z5797002 151160-00001-90	\$ 16,812.76 20,923.61 45,535.25 32,763.05 28,362.99 15,000.00 239.81	
					159,637.47
10.311	Beginning Farmer and Rancher Development Program				97,305.88
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)				64,070.57
10.328	National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	University of Florida	2015-70020-24397	\$ 97,261.83 4,473.34	
					101,735.17
					11,491.69

State of Tennessee
Schedule of Expenditures of Federal Awards
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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.329	Crop Protection and Pest Management Competitive Grants Program	North Carolina State University Texas A&M University	2015-0085-29 06-S150638	\$ 91,994.65 12,629.68 <u>10,695.31</u>	115,319.64 -
10.351	Rural Business Development Grant	Middle Tennessee Industrial Development Association	C17-0909	\$ 132,756.88 <u>5,637.51</u>	138,394.39 -
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers				15,729.35 -
10.464	Socially Disadvantaged Farmers and Ranchers Policy Research Center	Alcorn State University	59-PRC-15-001		32,703.06 -
10.500	Cooperative Extension Service	Kansas State University Kansas State University Mississippi State University University of Arkansas University of Arkansas University of Arkansas University of Arkansas University of Arkansas University of Arkansas University of Minnesota University of Missouri University of Missouri	S16076 S17123 012100.340743.01 0047403 21666-15 21666-16 21666-22 21667-01 21667-11 2014-41520-22191 C00051968-4 C00055873-4	\$ 17,557,445.89 5,997.20 6,470.60 493.26 1,254.12 44,416.51 37,034.02 23,596.85 3,245.02 13,376.08 106,947.10 5,299.58 <u>2,929.59</u>	17,808,505.82 -
10.557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children				113,746,410.74 92,186,949.72
10.558	Child and Adult Care Food Program				69,030,145.83 68,256,695.82
10.560	State Administrative Expenses for Child Nutrition				6,649,197.82 4,846,215.44
10.572	WIC Farmers' Market Nutrition Program (FMNP)				58,822.96 61,763.00
10.576	Senior Farmers Market Nutrition Program				487,477.50 446,112.17
10.578	WIC Grants To States (WGS)				168,903.82 10,000.00

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.579	Child Nutrition Discretionary Grants Limited Availability			449,462.37	449,462.37
10.582	Fresh Fruit and Vegetable Program			3,173,890.02	3,173,890.02
10.598	Supplemental Nutrition Assistance Program (SNAP) Recipient Trafficking Prevention Grants			532,433.57	-
10.614	Scientific Cooperation Exchange Program with China			4,531.84	-
10.652	Forestry Research			358,265.29	-
10.664	Cooperative Forestry Assistance			1,358,163.21	639,411.97
10.675	Urban and Community Forestry Program			306,929.05	67,831.77
10.676	Forest Legacy Program			2,707,835.08	-
10.678	Forest Stewardship Program			118,359.56	35,892.87
10.680	Forest Health Protection			403,584.27	14,591.41
10.691	Good Neighbor Authority			4,800.00	-
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			62,259.89	-
10.861	Public Television Station Digital Transition Grant Program			206,051.47	-
10.902	Soil and Water Conservation			253,786.55	-
10.912	Environmental Quality Incentives Program	North Carolina State University	2012-1632-06	\$ 92,955.43 407.59	-
				93,363.02	-
10.920	Grassland Reserve Program			5,937.83	-
10.950	Agricultural Statistics Reports			44,353.42	-
10.961	Scientific Cooperation and Research			3,779.88	-
10.962	Cochran Fellowship Program-International Training- Foreign Participant			36,452.60	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.U01	Farm Credit Development Rural TN-Holland		CHECK	31,413.03	-
10.U02	USDA FS Chemical Retention Alys-MATCH		16-JV-11111137-043	18,468.92	-
10.U03	USDA FS Management Tools Cankers-MATCH		15-CS-11330129-041	(4,367.69)	-
10.U04	USDA FS Resilient Agriculture-Walker		16-CR-11330110-062	19,253.70	-
10.U05	USDA FS Silviculture 2017-Clatterbuck		NASP 10	117,855.00	-
10.U06	USDA FSA EXT Svcs Farm Bill 2014-Smith		58-0510-4-060-N	3,630.53	-
10.U07	PSU AMS State Training 2016-Donaldson	The Pennsylvania State University	ADVANCED ACCOUNT	3,174.73	-
10.U08	USCP Sugarcane Research BMP-Stewart	United Sorghum Checkoff Program	C1005-16	15,000.00	-
Subtotal Department of Agriculture				\$ 230,965,847.11	\$ 170,511,760.76
Department of Commerce					
11.302	Economic Development_Support for Planning Organizations			\$ 14,794.54	\$ -
11.303	Economic Development_Technical Assistance			135,567.79	-
11.549	State and Local Implementation Grant Program			429,030.82	-
11.611	Manufacturing Extension Partnership			3,652,260.49	-
11.620	Science, Technology, Business and/or Education Outreach			3,000.00	-
Subtotal Department of Commerce				\$ 4,234,653.64	\$ -
Department of Defense					
12.002	Procurement Technical Assistance For Business Firms			\$ 267,020.82	\$ -
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services			158,902.20	-
12.300	Basic and Applied Scientific Research			104,717.52	85,315.51

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.401	National Guard Military Operations and Maintenance (O&M) Projects			29,901,022.28	-
12.404	National Guard ChalleNGe Program			1,407,463.79	-
12.431	Basic Scientific Research	Morgan State University	W15QKN-14-1-0001	\$ 9,181.74 4,712.00	-
12.630	Basic, Applied, and Advanced Research in Science and Engineering	Academy of Applied Sciences Academy of Applied Sciences American Lightweight Materials Manufacturing Innovation Institute	2015-2016 SYMPOSIUM 2016-2017 SYMPOSIUM PO NUMBER 0034	\$ (3,976.73) 18,200.87 186,210.80	-
12.901	Mathematical Sciences Grants			200,434.94 13,966.94	-
12.903	GenCyber Grants Program			99,865.59	-
Subtotal Department of Defense				\$ 32,167,287.82	\$ 85,315.51
Department of Housing and Urban Development					
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			\$ 30,889,855.02	\$ 30,148,568.23
14.231	Emergency Solutions Grant Program	City of Knoxville City of Knoxville	C-17-0006 C-17-0215	\$ 4,283,774.66 15,000.00 17,500.00	4,316,274.66 4,087,518.70
14.239	Home Investment Partnerships Program	City of Johnson City	Unknown	\$ 7,861,770.49 11,567.56	7,873,338.05 7,372,020.16
14.241	Housing Opportunities for Persons with AIDS			1,076,432.52	1,068,670.19
14.267	Continuum of Care Program			108,887.36	-
14.401	Fair Housing Assistance Program State and Local			424,700.00	-
14.896	Family Self-Sufficiency Program			280,988.99	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
14.U01	Office of Manufactured Housing Programs		DU100K900016709	275,015.86	-
Subtotal Department of Housing and Urban Development				<u>\$ 45,245,492.46</u>	<u>\$ 42,676,777.28</u>
Department of the Interior					
15.252	Abandoned Mine Land Reclamation (AMLR)			\$ 2,022,005.53	\$ 567,753.06
15.608	Fish and Wildlife Management Assistance			49,977.42	-
15.615	Cooperative Endangered Species Conservation Fund			1,580,194.82	-
15.616	Clean Vessel Act			230,018.97	-
15.622	Sportfishing and Boating Safety Act			91,224.32	-
15.626	Enhanced Hunter Education and Safety			242,644.40	205,000.00
15.631	Partners for Fish and Wildlife			172,422.58	110,554.58
15.634	State Wildlife Grants			867,017.05	-
15.650	Research Grants (Generic)			31,659.42	-
15.663	National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1904.16.052925	13,049.63	-
15.669	Cooperative Landscape Conservation			152,664.09	-
15.808	U.S. Geological Survey_ Research and Data Collection			172,968.63	-
15.810	National Cooperative Geologic Mapping			639.49	-
15.904	Historic Preservation Fund Grants-In-Aid			393,188.67	299,052.88
15.916	Outdoor Recreation_Acquisition, Development and Planning			497,516.76	-
15.939	National Heritage Area Federal Financial Assistance			316,931.44	39,600.00
15.U01	FWS 2015 TN NWR Complex Pelren MATCH		F15AC00277	7,002.97	-
Subtotal Department of the Interior				<u>\$ 6,841,126.19</u>	<u>\$ 1,221,960.52</u>

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Justice					
16.017	Sexual Assault Services Formula Program			\$ 384,635.54	\$ -
16.111	Joint Law Enforcement Operations (JLEO)			13,683.60	-
16.523	Juvenile Accountability Block Grants			182,572.53	-
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus			107,179.78	-
16.540	Juvenile Justice and Delinquency Prevention			709,678.60	427,901.99
16.550	State Justice Statistics Program for Statistical Analysis Centers			58,523.09	-
16.554	National Criminal History Improvement Program (NCHIP)			1,070,405.08	-
16.575	Crime Victim Assistance			13,052,812.35	-
16.576	Crime Victim Compensation			4,974,000.00	-
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program			613,884.79	-
16.582	Crime Victim Assistance/Discretionary Grants			37,188.39	-
16.585	Drug Court Discretionary Grant Program			449,325.01	417,082.51
16.588	Violence Against Women Formula Grants			2,551,919.88	-
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program			155,021.86	-
16.593	Residential Substance Abuse Treatment for State Prisoners			179,436.54	-
16.603	Corrections_Technical Assistance/Clearinghouse			12,918.76	-
16.606	State Criminal Alien Assistance Program			509,265.80	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
16.710	Public Safety Partnership and Community Policing Grants			345,444.48	-
16.726	Juvenile Mentoring Program	National 4-H Council National 4-H Council	2014-OJJDP-NMPV-542 2016-JU-FX-0022	\$ 11,849.31 22,628.95	34,478.26 -
16.730	Reduction and Prevention of Children's Exposure to Violence	Shelby County Government	CA1617338	2,070.65	2,070.65
16.738	Edward Byrne Memorial Justice Assistance Grant Program	City of Memphis Shelby County Public Defender	2014-DJ-BX-0559 S009132	\$ 6,201,166.54 30,902.17 201,722.97	6,433,791.68 201,722.97
16.741	DNA Backlog Reduction Program			2,161,771.75	-
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program			41,417.11	-
16.750	Support for Adam Walsh Act Implementation Grant Program			6,718.94	-
16.751	Edward Byrne Memorial Competitive Grant Program	New York Prosecutors Training Institute	2013-DB-BX-K005	\$ 30,000.00 12,815.80	42,815.80 -
16.754	Harold Rogers Prescription Drug Monitoring Program			3,697.59	-
16.813	NICS Act Record Improvement Program			97,930.56	-
16.833	National Sexual Assault Kit Initiative	City of Memphis Police Department	2015-AK-BX-K004	7,248.18	-
16.922	Equitable Sharing Program			785,455.52	-
16.U01	Governor's Task Force on Marijuana Eradication		2016-116 2017-114	\$ 577,869.42 114,225.75	692,095.17 -
16.U02	State and Local Overtime Program		TN0191800	12,181.77	-
16.U03	Task Force OT		DEA MARSHALL ICEJOPS 116N02432 ICEJOPS 117N02432	\$ 15,934.00 10,453.13 15,244.87	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
			JTTF	5,385.06	
			JTTF 0511	3,312.44	
			OCDETF SETNE0247	1,056.52	
			OCDETF SETNE0248	1,238.86	
			OCDETF SETNM0191	1,243.35	
			OCDETF SETNW0198	2,823.06	
			OCDETF SETNW0205	68.22	
			USSJOPS 317644084	12,753.46	
			USSJOPS 316173292	637.65	
			USSJOPS 316644084	10,608.27	
			USSJOPS 317173292	3,988.80	
				<u>84,747.69</u>	<u>-</u>
Subtotal Department of Justice				\$ 35,814,316.75	\$ 1,048,778.12
Department of Labor					
17.002	Labor Force Statistics			\$ 966,362.25	\$ -
17.005	Compensation and Working Conditions			133,090.94	-
17.225	Unemployment Insurance			267,545,545.93	397,642.79
17.235	Senior Community Service Employment Program			1,661,079.59	1,324,736.16
17.245	Trade Adjustment Assistance			2,217,736.60	60,799.65
17.261	WIOA Pilots, Demonstrations, and Research Projects			319,604.23	-
17.268	H-1B Job Training Grants			\$ 638,648.14	
		Memphis Bioworks Foundation	HG-22604-12-60-A-47	43,762.89	
		Memphis Bioworks Foundation	HG-26665-15-60-A-47	<u>76,922.63</u>	
				759,333.66	-
17.271	Work Opportunity Tax Credit Program (WOTC)			810,725.84	-
17.273	Temporary Labor Certification for Foreign Workers			291,096.43	-
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants			140,603.83	46,877.05
17.281	WIOA Dislocated Worker National Reserve Technical Assistance and Training			31,556.67	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues		Expenditures/Issues Passed Through to Subrecipients
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	Henry Ford Community College Mid South Community College Mid South Community College	SGADFAPY1108 TC-26495-14-60-12-TCAT TC-26495-14-60-A-12	\$ 4,593,689.34 4,301.53 701,948.21 <u>206,849.71</u>	5,506,788.79	-
17.503	Occupational Safety and Health_State Program			3,950,295.03		-
17.504	Consultation Agreements			1,158,119.79		-
17.600	Mine Health and Safety Grants			207,409.91		-
17.720	Disability Employment Policy Development			<u>837,962.61</u>		-
Subtotal Department of Labor				<u>\$ 286,537,312.10</u>	<u>\$ 1,830,055.65</u>	
Department of State						
19.009	Academic Exchange Programs - Undergraduate Programs	FHI 360 Family Health International FHI 360 Family Health International	PO16002472 PO17002657	\$ 107,173.19 <u>32,374.39</u>	\$ 139,547.58	\$ -
19.033	Global Threat Reduction			648,439.12		-
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges			927,027.96		813,274.46
19.704	Counter Narcotics			<u>5,714.13</u>		-
Subtotal Department of State				<u>\$ 1,720,728.79</u>	<u>\$ 813,274.46</u>	
Department of Transportation						
20.106	Airport Improvement Program			\$ 19,956,564.97	\$ 19,956,564.97	
20.215	Highway Training and Education	Knox County Schools Knox County Schools	14-584 GAMTTEP	\$ 1,142.54 73,333.94 <u>44,078.35</u>	118,554.83	-
20.218	Motor Carrier Safety Assistance			5,133,607.08		-

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20.231	Performance and Registration Information Systems Management			185,450.00	-
20.232	Commercial Driver's License Program Implementation Grant			367,417.47	-
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			1,543,466.73	1,541,332.86
20.509	Formula Grants for Rural Areas			23,013,601.01	22,826,091.27
20.514	Public Transportation Research, Technical Assistance, and Training			33,836.59	-
20.519	Clean Fuels			377,776.80	377,776.80
20.528	Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program			135,275.26	-
20.607	Alcohol Open Container Requirements			11,925,255.35	4,077,939.22
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	National Safety Council	DTNH22-15-H-00473	\$ 149,966.60 6,662.77	156,629.37 9,424.36
20.700	Pipeline Safety Program State Base Grant			1,039,875.06	-
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants			297,579.27	111,587.83
20.U01	NLLEA Training	National Liquor Law Enforcement Association	NHTSA-TNTRAINING-2016	12,000.00	-
Subtotal Department of Transportation				\$ 64,296,889.79	\$ 48,900,717.31
Appalachian Regional Commission					
23.001	Appalachian Regional Development (See individual Appalachian Programs)			\$ 1,589.01	\$ -
23.002	Appalachian Area Development			2,424,872.83	2,328,696.44

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23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			322,246.99	41,551.44
Subtotal Appalachian Regional Commission				\$ 2,748,708.83	\$ 2,370,247.88
Equal Employment Opportunity Commission					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts			\$ 156,600.00	\$ -
Subtotal Equal Employment Opportunity Commission				\$ 156,600.00	\$ -
General Services Administration					
39.003	Donation of Federal Surplus Personal Property (Noncash Award)			\$ 2,255,799.71	\$ -
39.011	Election Reform Payments			522,811.18	-
Subtotal General Services Administration				\$ 2,778,610.89	\$ -
Library of Congress					
42.U01	Teaching with Primary Sources		GA08C0077	\$ 116,751.52	\$ -
Subtotal Library of Congress				\$ 116,751.52	\$ -
National Aeronautics and Space Administration					
43.001	Science			\$ 63,204.84	
		Association of Universities for Research in Astronomy	PO: N815820-N	2,842.51	
		University of Toledo	NNX16ACS4A	75,334.05	
				\$ 141,381.40	\$ -
43.007	Space Operations			71,923.35	-
43.008	Education			\$ 214,910.71	
		Vanderbilt University	2810-018483	33,891.26	
		Vanderbilt University	2812-018483	35,304.58	
		Vanderbilt University	2813-018493	23,886.65	
		Vanderbilt University	3799-019687	22,146.02	

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		Vanderbilt University	3807-019687	6,250.00	
		Vanderbilt University	NNX15AR73H	12,018.98	
		Vanderbilt University	UNIV59308	11,689.37	
				<u>360,097.57</u>	<u>-</u>
Subtotal National Aeronautics and Space Administration				\$ 573,402.32	\$ -
National Endowment for the Arts					
45.024	Promotion of the Arts_Grants to Organizations and Individuals	Arts Midwest	00017854	\$ 0.31 <u>15,000.00</u>	
				\$ 15,000.31	\$ -
45.025	Promotion of the Arts_Partnership Agreements			<u>799,900.00</u>	<u>743,900.00</u>
Subtotal National Endowment for the Arts				\$ 814,900.31	\$ 743,900.00
National Endowment for the Humanities					
45.129	Promotion of the Humanities_Federal/State Partnership	Humanities Tennessee	A1-2543	\$ 6,328.75	
		Humanities Tennessee	Memories of a Massacre	693.00	
		Vanderbilt University	A1-2603	<u>3,977.44</u>	
				\$ 10,999.19	\$ 7,021.75
45.149	Promotion of the Humanities_Division of Preservation and Access			4,173.75	-
45.160	Promotion of the Humanities_Fellowships and Stipends			84,786.64	-
45.162	Promotion of the Humanities_Teaching and Learning Resources and Curriculum Development			62,926.82	-
45.163	Promotion of the Humanities_Professional Development			9,803.57	-
45.U01	W F Albright Institute of Archaeo Darby	W. F. Albright Institute of Archaeological Research	AIAR FELLOWSHIP	(7,230.54)	-
Subtotal National Endowment for the Humanities				\$ 165,459.43	\$ 7,021.75
Institute of Museum and Library Services					
45.310	Grants to States			\$ 3,202,070.98	\$ 252,900.00

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45.312	National Leadership Grants			15,593.08	-
45.313	Laura Bush 21st Century Librarian Program			409,075.07	42,736.58
Subtotal Institute of Museum and Library Services				\$ 3,626,739.13	\$ 295,636.58
National Science Foundation					
47.049	Mathematical and Physical Sciences	American Physical Society	PT-007-2015	\$ 4,785.95	\$ -
47.070	Computer and Information Science and Engineering			154,930.13	-
47.076	Education and Human Resources			\$ 282,563.41	
		Indian River State College	RCNET CSCC-0005	11,161.92	
		Macomb Community College	I1400593	18,622.58	
				312,347.91	12,172.13
Subtotal National Science Foundation				\$ 472,063.99	\$ 12,172.13
Small Business Administration					
59.037	Small Business Development Centers			\$ 2,326,138.58	\$ 75,069.11
Subtotal Small Business Administration				\$ 2,326,138.58	\$ 75,069.11
Tennessee Valley Authority					
62.004	Tennessee Valley Region_Economic Development			\$ 20,459.73	\$ -
62.U01	Tennessee Valley Authority Emergency Preparedness		FY2015-2019 TVA AWAR	1,347,290.66	296,440.80
62.U02	TVA - Solar Farm 8500021516 - Patterson		8500021516	428,120.42	-
62.U03	TVA Diversity-Ridley-FY17		Unknown	10,000.00	-
62.U04	TVA- MCClung Museum - Baumann		PO1564330-1 (9392)	69,418.89	-
62.U05	TVA Tall Fescue Eradication #2-Harper		2305511	2,673.93	-
62.U06	TVA Tall Fescue Eradication-Harper		11234	17,647.19	-
Subtotal Tennessee Valley Authority				\$ 1,895,610.82	\$ 296,440.80

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Department of Veterans Affairs					
64.005	Grants to States for Construction of State Home Facilities			\$ 242,456.35	\$ -
64.009	Veterans Medical Care Benefits			450,612.34	450,612.34
64.015	Veterans State Nursing Home Care			25,884,409.93	-
64.022	Veterans Home Based Primary Care			62,528.19	-
64.033	VA Supportive Services for Veteran Families Program	Volunteers of America	Unknown	4,054.84	-
64.101	Burial Expenses Allowance for Veterans			1,163,216.00	-
64.124	All-Volunteer Force Educational Assistance			434,834.92	-
64.203	Veterans Cemetery Grants Program			2,489,243.66	-
64.U01	Department of Veterans Affairs		Unknown	889.45	-
64.U02	Educational Assistance Annual Reporting Fees		ANNUAL REPORTING FEES	790.72	-
64.U03	Support Veterans		11908142	5,058.00	-
64.U04	VA Medical Center IPA Agreements-Waters		Unknown	(0.09)	-
Subtotal Department of Veterans Affairs				\$ 30,738,094.31	\$ 450,612.34
Environmental Protection Agency					
66.001	Air Pollution Control Program Support			\$ 24,416.70	\$ -
66.032	State Indoor Radon Grants			124,883.43	-
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act			348,576.60	-
66.040	State Clean Diesel Grant Program			152,688.96	152,688.96
66.204	Multipurpose Grants to States and Tribes			52,964.30	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
66.419	Water Pollution Control State, Interstate, and Tribal Program Support			590,667.73	307,852.14
66.433	State Underground Water Source Protection			70,639.13	-
66.454	Water Quality Management Planning	Southeast Tennessee Development District	DATED 01-01-16	\$ 121,827.14 14,754.78	
				136,581.92	68,153.75
66.460	Nonpoint Source Implementation Grants			2,505,378.86	1,042,888.29
66.461	Regional Wetland Program Development Grants			193,059.09	-
66.466	Chesapeake Bay Program	Virginia Polytechnic Institute and State University	CB-96326201	6,963.01	-
66.513	Greater Research Opportunities (GRO) Fellowships For Undergraduate Environmental Study			315.80	-
66.514	Science To Achieve Results (STAR) Fellowship Program			26,995.29	-
66.605	Performance Partnership Grants			6,373,434.72	-
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	State of Arizona	OS-83594301	\$ 121,767.38 4,044.76	
				125,812.14	-
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements			113,722.10	-
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals			410,145.47	-
66.708	Pollution Prevention Grants Program			90,697.58	-
66.717	Source Reduction Assistance			38,882.80	-
66.801	Hazardous Waste Management State Program Support			1,616,265.36	-
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements			1,192,231.68	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
66.804	Underground Storage Tank Prevention, Detection and Compliance Program			787,376.14	-
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program			937,751.20	-
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements			85,186.84	-
66.817	State and Tribal Response Program Grants			134,085.76	-
66.951	Environmental Education Grants	Urban Green Lab, Incorporated	Unknown	1,400.00	-
66.U01	Energy Conservation and Wastewater Training Project		T1604T36004	9,343.02	-
66.U02	EPA Assessment Training		T1604TC6033	5,218.86	-
66.U03	Wastewater Training Assistance		T1604TC6038	17,456.05	-
Subtotal Environmental Protection Agency				\$ 16,173,140.54	\$ 1,571,583.14
Nuclear Regulatory Commission					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 165,703.80	\$ -
Subtotal Nuclear Regulatory Commission				\$ 165,703.80	\$ -
Department of Energy					
81.041	State Energy Program			\$ 809,352.76	\$ -
81.042	Weatherization Assistance for Low-Income Persons			5,338,007.27	5,106,883.63
81.049	Office of Science Financial Assistance Program			2,949.82	-
81.092	Environmental Restoration			3,484,437.44	44,503.83
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance			800,041.85	73,164.20
81.119	State Energy Program Special Projects			586,886.41	511,887.66

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
81.121	Nuclear Energy Research, Development and Demonstration			7,500.00	-
81.136	Long-Term Surveillance and Maintenance			362,219.72	183,830.29
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis			2,603,579.23	202,684.32
81.U01	Monitoring and Oversight		DEFG0596OR22520	81.00	-
81.U02	Oak Ridge WMA		REORDOER-3-97-0702	222,567.29	-
81.U03	Argonne National Lab 6F31681 Stainback	Argonne National Laboratory	6F-31681	21,812.00	-
81.U04	Argonne Natl Lab-Workshops-IESP-Dongarra	Argonne National Laboratory	9F-31202	10,312.96	-
81.U05	Natl 4-H Career Pathway Evln-Donaldson	National 4-H Council	CAREER PATHWAY	14,068.51	-
Subtotal Department of Energy				\$ 14,263,816.26	\$ 6,122,953.93
Department of Education					
84.002	Adult Education - Basic Grants to States			\$ 10,162,731.84	\$ 5,800,639.08
84.010	Title I Grants to Local Educational Agencies	Hamilton County Department of Education	P50240	\$ 305,664,226.76 164,816.02	
				305,829,042.78	291,341,422.78
84.011	Migrant Education_State Grant Program			284,425.27	284,425.27
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth			271,064.66	-
84.015	National Resource Centers Program for Foreign Language and Area Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program	The Ohio State University	60045660	790.70	-
84.022	Overseas Programs - Doctoral Dissertation Research Abroad			17,881.02	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.031	Higher Education_Institutional Aid			8,645,222.93	-
84.048	Career and Technical Education -- Basic Grants to States			23,842,098.60	19,635,561.52
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States			41,853,444.65	-
84.129	Rehabilitation Long-Term Training			261,574.74	-
84.144	Migrant Education_Coordination Program			266,666.00	266,666.00
84.169	Independent Living_State Grants			2,532.09	-
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind			1,111,353.71	-
84.181	Special Education-Grants for Infants and Families			9,012,676.90	4,664,008.52
84.184	School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities-National Programs)			178,773.13	7,375.00
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities			934,614.00	-
84.191	Adult Education_National Leadership Activities			139,308.97	-
84.196	Education for Homeless Children and Youth			1,224,002.54	1,144,927.75
84.200	Graduate Assistance in Areas of National Need			270,416.60	-
84.215	Fund for the Improvement of Education	Delta Health Alliance	Indianola Promise	106,123.70	106,123.70
84.265	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training			35,415.29	-
84.282	Charter Schools			74,380.26	-
84.287	Twenty-First Century Community Learning Centers			24,825,075.96	23,496,176.16
84.323	Special Education - State Personnel Development			1,071,832.56	114,982.94

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	University of Florida	H325A120003	\$ 670,359.68 94,067.70	
				764,427.38	-
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	198,282.03	-
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)			1,295,446.33	368,910.00
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs			5,112,864.85	2,641,829.04
84.350	Transition to Teaching	University of Louisiana at Monroe	P0011459	5,933.05	-
84.358	Rural Education			4,476,378.81	4,199,735.10
84.360	High School Graduation Initiative	National Writing Project Corporation	94-TN02-SEED2012	1,318.67	-
84.365	English Language Acquisition State Grants			5,135,839.72	4,608,100.40
84.366	Mathematics and Science Partnerships	Hawkins County Schools	S366B150043	\$ 2,527,732.11	
		Hawkins County Schools	S366B160043	141,052.47	
		Murfreesboro City School District	S366B150043	34,049.80	
				47,650.14	
				2,750,484.52	1,915,551.80
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	National Writing Project Corporation	05-TN03-SEED2016-ILI	\$ 39,290,643.47	
		National Writing Project Corporation	08-TN04-SEED2014 AMD 1	6,136.17	
		National Writing Project Corporation	08-TN04-SEED2016-ILI	6,238.78	
				13,200.30	
				39,316,218.72	36,888,434.96
84.369	Grants for State Assessments and Related Activities			8,716,625.42	-
84.372	Statewide Longitudinal Data Systems			1,246,141.11	187,318.08
84.374	Teacher and School Leader Incentive Grants (formerly the Teacher Incentive Fund)			3,522,852.93	3,278,473.45
84.377	School Improvement Grants			17,762,826.64	10,259,335.24

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.378	College Access Challenge Grant Program			557,027.78	147,604.04
84.382	Strengthening Minority-Serving Institutions			622,494.03	-
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act			(506.21)	-
84.407	Transition Programs for Students with Intellectual Disabilities into Higher Education			311,278.92	-
84.411	Education Innovation and Research (formerly Investing in Innovation (i3) Fund)	National Writing Project Corporation National Writing Project Corporation	05-TN03-2017I3AI 05-TN03-I3DP2015	\$ 944.34 14,558.93	-
84.419	Preschool Development Grants			18,241,913.19	15,373,620.86
84.U01	NAEP State Coordinator/Basic Participation Contract		ED-03-CO-0091	128,696.65	-
84.U02	National Writing Project	National Writing Project Corporation	94-TN02	(454.52)	-
84.U03	Tennessee SCORE - State Collab -Crawford	State Collaborative on Reforming Education	DATED 8/15/16	15,626.52	-
84.U04	Tennessee SCORE Regional ED Sum Crawford	State Collaborative on Reforming Education	DATED 02-25-16	(1,899.13)	-
Subtotal Department of Education				\$ 540,616,769.58	\$ 426,731,221.69
National Archives and Records Administration					
89.003	National Historical Publications and Records Grants			\$ 35,634.99	\$ 24,876.48
Subtotal National Archives and Records Administration				\$ 35,634.99	\$ 24,876.48
U.S. Election Assistance Commission					
90.401	Help America Vote Act Requirements Payments			\$ 428,239.88	\$ 425,052.48
Subtotal U.S. Election Assistance Commission				\$ 428,239.88	\$ 425,052.48

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
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			\$ 60,790.46	\$ 57,681.00
93.042	Special Programs for the Aging_ Title VII, Chapter 2_ Long Term Care Ombudsman Services for Older Individuals			306,776.00	159,152.00
93.043	Special Programs for the Aging_ Title III, Part D_ Disease Prevention and Health Promotion Services			324,971.00	324,971.00
93.048	Special Programs for the Aging_ Title IV_ and Title II_ Discretionary Projects			1,499.23	1,499.23
93.052	National Family Caregiver Support, Title III, Part E			2,648,548.00	2,648,548.00
93.069	Public Health Emergency Preparedness			1,069,435.28	603,569.68
93.070	Environmental Public Health and Emergency Response			322,448.25	88,517.18
93.071	Medicare Enrollment Assistance Program			653,086.95	652,193.94
93.072	Lifespan Respite Care Program			77,492.11	56,489.22
93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance			119,456.72	22,839.24
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements			14,982,190.32	6,046,958.54
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance			6,230.25	-
93.087	Enhance Safety of Children Affected by Substance Abuse			802,827.15	785,532.26
93.090	Guardianship Assistance			6,492,395.90	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program			1,228,856.93	-
93.103	Food and Drug Administration_Research			2,637,582.25	21,551.77
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)			356,497.90	185,534.59
93.110	Maternal and Child Health Federal Consolidated Programs	Vanderbilt University	T73 MC00050	\$ 340,433.80	
		Vanderbilt University	VUMC59412	5,980.80	
				<u>92,763.69</u>	
				439,178.29	40,769.38
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs			1,538,904.96	1,282,462.40
93.121	Oral Diseases and Disorders Research			4,800.00	-
93.124	Nurse Anesthetist Traineeships			34,971.88	-
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices			270,757.88	-
93.136	Injury Prevention and Control Research and State and Community Based Programs			2,219,390.83	534,295.10
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	National Partnership for Environmental Technology Education	10532	\$ (831.68)	
		National Partnership for Environmental Technology Education	10694	115,381.68	
		National Partnership for Environmental Technology Education	10704	24,956.38	
		National Partnership for Environmental Technology Education	PETE 2016	35,205.85	
		University of Cincinnati	2U45ES006184-24	25,126.86	
		University of Cincinnati	5U45ES006184-25	<u>242,342.52</u>	
				442,181.61	-
93.150	Projects for Assistance in Transition from Homelessness (PATH)			880,914.80	776,989.77
93.165	Grants to States for Loan Repayment Program			379,765.00	379,765.00
93.178	Nursing Workforce Diversity			507,603.59	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.217	Family Planning_Services			7,259,789.67	506,670.68
93.234	Traumatic Brain Injury State Demonstration Grant Program			266,936.98	271,095.76
93.235	Affordable Care Act (ACA) Abstinence Education Program			1,336,379.51	1,214,164.75
93.240	State Capacity Building			277,574.74	-
93.241	State Rural Hospital Flexibility Program			499,710.62	446,784.79
93.243	Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	American Nurses Association Appalachian Regional Coalition on Homelessness Meharry Medical College	2 T06 SM060559-04 CABHI-16 130506RZ070-01	\$ 14,352,595.47 5,000.00 78,223.56 <u>24,538.80</u>	14,460,357.83 10,205,245.22
93.247	Advanced Nursing Education Workforce Grant Program	Walsh University	D09HP28683	\$ 1,545,565.38 <u>21,675.08</u>	1,567,240.46 -
93.251	Universal Newborn Hearing Screening			261,488.40	117,625.95
93.262	Occupational Safety and Health Program			251,988.37	-
93.268	Immunization Cooperative Agreements			1,540,113.36	(80,881.16)
93.268	Immunization Cooperative Agreements (Noncash Award)			82,065,621.00	-
93.270	Viral Hepatitis Prevention and Control			342,077.64	-
93.273	Alcohol Research Programs			37,449.64	-
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance			2,712,167.42	1,416,078.97
93.297	Teenage Pregnancy Prevention Program	Douglas-Cherokee Economic Authority	TEEN PREGNANCY PREVE	47,276.06	-
93.301	Small Rural Hospital Improvement Grant Program			290,245.45	258,882.73
93.305	National State Based Tobacco Control Programs			1,048,536.48	471,498.36

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program			144,850.31	-
93.317	Emerging Infections Programs			1,565,040.53	385,570.48
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			3,859,547.16	4,180.82
93.324	State Health Insurance Assistance Program			1,081,667.66	870,239.27
93.325	Paralysis Resource Center	Christopher and Dana Reeve Foundation	90PR3002-02-01	428.09	-
93.336	Behavioral Risk Factor Surveillance System			98,009.84	40,615.00
93.358	Advanced Education Nursing Traineeships			336,719.68	-
93.359	Nurse Education, Practice Quality and Retention Grants			188,320.66	-
93.369	ACL Independent Living State Grants			362,918.97	-
93.393	Cancer Cause and Prevention Research			(20,435.58)	-
93.464	ACL Assistive Technology			434,400.03	-
93.516	Public Health Training Centers Program	Emory University	T460731	\$ 5,809.42	
		Emory University	T657127	<u>35,180.31</u>	
				40,989.73	-
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			2,200,343.17	705,679.22
93.526	Grants for Capital Development in Health Centers			352,943.03	-
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds			3,216,454.04	1,613,552.51
93.550	Transitional Living for Homeless Youth	National Safe Place	90-CY6498-01-00	93,474.26	-
93.556	Promoting Safe and Stable Families			8,939,599.27	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.563	Child Support Enforcement			41,064,488.07	-
93.564	Child Support Enforcement Research			90,188.64	-
93.568	Low-Income Home Energy Assistance			45,884,099.74	45,437,709.71
93.569	Community Services Block Grant			11,815,679.08	11,446,398.44
93.586	State Court Improvement Program			505,880.89	-
93.590	Community-Based Child Abuse Prevention Grants			703,013.99	-
93.597	Grants to States for Access and Visitation Programs			165,979.69	-
93.599	Chafee Education and Training Vouchers Program (ETV)			836,068.26	-
93.600	Head Start	Knoxville-Knox County Community Action Committee	HEAD START TEACHERS	\$ 3,915,412.47 10,303.52	
				<hr/> 3,925,715.99	671,969.98
93.617	Voting Access for Individuals with Disabilities_Grants to States			3,346.77	-
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance			16,895,985.56	899,157.55
93.630	Developmental Disabilities Basic Support and Advocacy Grants			1,246,358.31	389,459.42
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service			525,655.36	-
93.643	Children's Justice Grants to States			468,727.36	-
93.645	Stephanie Tubbs Jones Child Welfare Services Program			6,187,448.86	-
93.648	Child Welfare Research Training or Demonstration			689,893.13	-
93.652	Adoption Opportunities	Harmony Family Center Harmony Family Center Spaulding for Children Adoption Service	90CO1116-01-00 FY17 TRAUMA II 90CO1122-01-00	\$ 23,840.16 56,201.64 15,986.53	
				<hr/> 96,028.33	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.658	Foster Care_Title IV-E			55,107,190.02	-
93.659	Adoption Assistance			50,671,104.56	-
93.667	Social Services Block Grant			38,117,176.12	4,177,351.20
93.669	Child Abuse and Neglect State Grants			487,486.00	-
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services			2,037,343.29	-
93.674	Chafee Foster Care Independence Program			2,674,804.15	-
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)			822,569.53	-
93.735	State Public Health Approaches for Ensuring Quitline Capacity - Funded in part by Prevention and Public Health Funds (PPHF)			296,011.39	40,170.75
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			173,232.87	8,185.22
93.747	Elder Abuse Prevention Interventions Program			93,276.91	-
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds			3,276,847.70	22,345.49
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program			230,425.51	-
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)			722,630.10	394,420.68
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)			3,045,555.02	1,380,456.22

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.764	PPHF- Cooperative Agreements to Implement the National Strategy for Suicide Prevention (Short Title: National Strategy Grants)			533,150.48	493,730.67
93.767	Children's Health Insurance Program			168,127,113.77	-
93.788	Opioid STR			22,321.58	-
93.791	Money Follows the Person Rebalancing Demonstration			8,470,046.00	127,821.24
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).			625,790.52	-
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities			90,942.91	50,000.00
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research			(0.45)	-
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders			159,979.77	-
93.859	Biomedical Research and Research Training			1,023,397.37	-
93.865	Child Health and Human Development Extramural Research			112,912.88	-
93.866	Aging Research			31,376.00	-
93.876	Antimicrobial Resistance Surveillance in Retail Food Specimens			101,194.73	-
93.879	Medical Library Assistance	University of Maryland, Baltimore	1600679	3,244.00	-
93.884	Grants for Primary Care Training and Enhancement			376,615.78	-
93.889	National Bioterrorism Hospital Preparedness Program	South Central Region Healthcare Coalition	GE164686	\$ 158,539.68 823.52	
				<hr/>	
				159,363.20	61,599.22

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
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 LeBonheur Community Health and Well-Being	17/16 DELTA INTVE AD60HR25761	\$ 56,718.55 25,799.49	-
				82,518.04	-
93.913	Grants to States for Operation of State Offices of Rural Health			144,199.49	50,951.45
93.917	HIV Care Formula Grants			26,872,242.24	5,284,559.94
93.940	HIV Prevention Activities_Health Department Based			6,746,359.60	4,514,244.46
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			1,119,903.95	296,379.17
93.945	Assistance Programs for Chronic Disease Prevention and Control			1,563,640.54	586,835.90
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			365,176.14	2,662.84
93.958	Block Grants for Community Mental Health Services			9,616,428.64	9,497,585.03
93.959	Block Grants for Prevention and Treatment of Substance Abuse			31,616,955.04	31,474,182.86
93.964	Prevention and Public Health Fund (PPHF) Public Health Traineeships			785.98	-
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants			2,109,164.52	1,271,042.85
93.982	Mental Health Disaster Assistance and Emergency Mental Health			107,233.12	45,473.10
93.994	Maternal and Child Health Services Block Grant to the States			12,607,592.84	1,212,550.13
93.U01	Univ of Nebraska 24-0520-0227-005 Dukes	University of Nebraska Omaha	24-0520-0227-005	52,588.92	-
Subtotal Department of Health and Human Services				\$ 737,672,226.82	\$ 152,953,566.17

State of Tennessee
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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Corporation for National and Community Service					
94.003	State Commissions			\$ 312,580.47	\$ -
94.006	AmeriCorps			3,539,174.24	-
94.007	Program Development and Innovation Grants			148,340.17	33,112.00
94.013	Volunteers in Service to America			5,000.00	-
94.021	Volunteer Generation Fund			261,676.77	-
Subtotal Corporation for National and Community Service				\$ 4,266,771.65	\$ 33,112.00
Executive Office of the President					
95.001	High Intensity Drug Trafficking Areas Program			\$ 451,157.49	\$ -
Subtotal Executive Office of the President				\$ 451,157.49	\$ -
Department of Homeland Security					
97.005	State and Local Homeland Security National Training Program	University of Arkansas at Little Rock	18002-3	\$ 71,014.66	\$ 71,014.66
97.012	Boating Safety Financial Assistance			2,660,812.81	-
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)			101,399.33	-
97.029	Flood Mitigation Assistance			2,576.08	1,463.00
97.032	Crisis Counseling			157,662.97	150,515.97
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)			\$ 39,748,666.17	
		State of Georgia	1101-RR-5278	3,502.27	
		State of South Carolina	1099-RR-5176	5,127.09	
		State of South Carolina	1099-RR-5192	14,894.06	
		State of South Carolina	1099-RR-5194	19,579.43	
		State of South Carolina	940-RR-4189	110,568.75	
		State of South Carolina	940-RR-4190	105,282.45	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		State of South Carolina	940-RR-4219	<u>52,597.83</u>	
				40,060,218.05	32,843,585.72
97.039	Hazard Mitigation Grant			7,568,456.36	7,310,522.00
97.041	National Dam Safety Program			90,575.65	-
97.042	Emergency Management Performance Grants			7,449,249.85	3,128,196.51
97.043	State Fire Training Systems Grants			13,058.82	-
97.044	Assistance to Firefighters Grant			302,333.30	-
97.045	Cooperating Technical Partners			105,761.95	-
97.046	Fire Management Assistance Grant			1,039,194.39	-
97.047	Pre-Disaster Mitigation			74,262.15	-
97.067	Homeland Security Grant Program			1,776,346.62	1,182,793.62
97.068	Competitive Training Grant			<u>67.64</u>	<u>-</u>
Subtotal Department of Homeland Security				<u>\$ 61,472,990.63</u>	<u>\$ 44,688,091.48</u>
Agency for International Development					
98.U01	Borlaug Higher Education For Agriculture Research and Development	Michigan State University	RC102095	\$ 53,821.41	\$ -
Subtotal Agency for International Development				<u>\$ 53,821.41</u>	<u>\$ -</u>
State Justice Institute					
99.U01	Court Technical Assistance		SJI-15-T-190	\$ 1,094.90	
			SJI-16-T-146	<u>39,837.01</u>	
				<u>\$ 40,931.91</u>	<u>\$ -</u>
Subtotal State Justice Institute				<u>\$ 40,931.91</u>	<u>\$ -</u>
Total Unclustered Programs				<u>\$ 2,129,905,244.61</u>	<u>\$ 903,890,197.57</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
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<u>CFDA</u>	<u>Program Name</u>	<u>Passed Through From</u>	<u>Other Identifying Number</u>	<u>Total Expenditures/Issues</u>	<u>Expenditures/Issues Passed Through to Subrecipients</u>
Research and Development Cluster					
Department of Agriculture					
Agricultural Marketing Service					
10.156	Federal-State Marketing Improvement Program			\$ 50,285.71	\$ -
10.167	Transportation Services			2,338.81	-
Subtotal Agricultural Marketing Service				\$ 52,624.52	\$ -
Agricultural Research Service					
10.001	Agricultural Research_Basic and Applied Research	Arkansas Childrens Hospital	USDA 58-6251-3-004	\$ 1,877,059.13 0.01	
				\$ 1,877,059.14	\$ -
Subtotal Agricultural Research Service				\$ 1,877,059.14	\$ -
Animal and Plant Health Inspection Service					
10.025	Plant and Animal Disease, Pest Control, and Animal Care			\$ 295,197.80	\$ -
Subtotal Animal and Plant Health Inspection Service				\$ 295,197.80	\$ -
Economic Research Service					
10.253	Consumer Data and Nutrition Research	Duke University	343-0559	\$ 7,385.63	\$ -
Subtotal Economic Research Service				\$ 7,385.63	\$ -
Foreign Agricultural Service					
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			\$ 15,034.24	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.960	Technical Agricultural Assistance			22,343.10	-
Subtotal Foreign Agricultural Service				<u>\$ 37,377.34</u>	<u>\$ -</u>
Forest Service					
10.652	Forestry Research			\$ 77,770.54	\$ -
10.664	Cooperative Forestry Assistance			\$ 109,834.87	
		Kansas State University	S14159	(20.00)	
		National Fish and Wildlife Foundation	1905.14.042215	14,641.88	
		University of Kentucky	3000013495	<u>4,382.08</u>	
				128,838.83	-
10.675	Urban and Community Forestry Program			66,354.65	8,699.34
10.680	Forest Health Protection			<u>133,153.31</u>	<u>-</u>
Subtotal Forest Service				<u>\$ 406,117.33</u>	<u>\$ 8,699.34</u>
National Institute of Food and Agriculture					
10.200	Grants for Agricultural Research, Special Research Grants	Alabama Agricultural and Mechanical University	2014-38624-22535	\$ 719.70	
		University of Florida	2015-34383-23708	<u>3,263.12</u>	
				\$ 3,982.82	\$ -
10.202	Cooperative Forestry Research			114,529.69	-
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University			3,186,784.70	-
10.207	Animal Health and Disease Research			30,105.76	-
10.210	Higher Education - Graduate Fellowships Grant Program			43,285.00	-
10.215	Sustainable Agriculture Research and Education	University of Georgia	2013-38640-20856	\$ 66,119.00	
		University of Georgia	RD309-125/3502098	4,591.10	
		University of Kentucky	320000614-16-255	<u>16,981.50</u>	
				87,691.60	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.216	1890 Institution Capacity Building Grants	Kentucky State University	KSU	\$ 529,517.47 189.00	529,706.47 16,841.77
10.217	Higher Education - Institution Challenge Grants Program				2,029.95 -
10.219	Biotechnology Risk Assessment Research				348,844.49 67,209.45
10.303	Integrated Programs	The Ohio State University	60057824	\$ 392,256.93 51,600.71	443,857.64 70,098.17
10.307	Organic Agriculture Research and Extension Initiative	Rutgers, The State University of New Jersey	4828	\$ 740,116.22 11,012.47	751,128.69 287,686.93
10.309	Specialty Crop Research Initiative	Cornell University Cornell University Texas A&M University University of Arkansas University of Central Florida University of Florida	613414-9392 79598-10782 06-S150656 UA AES 91111-02 63016071-02 UF 11284	\$ 830,270.83 25.34 47,104.03 179,700.50 (5,019.45) 84,394.89 129.37	1,136,605.51 466,890.28
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 University of Illinois University of Kentucky University of Maine Washington State University Washington State University	416-23-11A 2011-0494-22 60049624 60050076 4774-UTIA-USDA-9752 RC294-323/4943246 RC294-330/4945556 2013-00998-01 320000379-17-187 UM-5878 115334 G002889 126319_G003583	\$ 6,222,959.45 484.29 79,670.79 36,185.50 26,902.47 (5,092.13) (681.03) 48,742.59 205.85 1,545.12 66,640.27 3,856.82 28,092.97	6,509,512.96 1,132,981.74
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	University of California	S-000844	104,859.03	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.318	Women and Minorities in Science, Technology, Engineering, and Mathematics Fields			25,511.96	-
10.319	Farm Business Management and Benchmarking Competitive Grants Program			148,675.14	-
10.320	Sun Grant Program	South Dakota State University	3TF640	\$ 178,953.96 243,205.85	
				422,159.81	180,830.99
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)			326,834.70	132,924.56
10.329	Crop Protection and Pest Management Competitive Grants Program	North Carolina State University Purdue University	2015-0085-12 800007119-AG	\$ 9,129.47 33,936.21	
				43,065.68	7,498.96
10.330	Alfalfa and Forage Research Program			48,488.13	12,993.73
10.331	Food Insecurity Nutrition Incentive Grants Program	American Association of Retired Persons Foundation	2015-70018-23332	166,130.29	-
10.500	Cooperative Extension Service			11,554.23	-
Subtotal National Institute of Food and Agriculture				\$ 14,485,344.25	\$ 2,375,956.58
Natural Resources Conservation Service					
10.903	Soil Survey			\$ 59,087.19	\$ -
10.912	Environmental Quality Incentives Program			240,427.31	-
Subtotal Natural Resources Conservation Service				\$ 299,514.50	\$ -
Rural Business-Cooperative Service					
10.351	Rural Business Development Grant			\$ 50,885.29	\$ -
Subtotal Rural Business-Cooperative Service				\$ 50,885.29	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Other Programs					
10.RD	Monitoring Responses of Herpetofaunal Communities To Prescribed Burns		13-CR-11242302-040	\$ 392.42	\$ -
10.RD	Pisgah National Forest Hollenbach		31TV732	1,716.24	-
10.RD	USDA 16-JV-11221636-104 Sims		16-JV-11221636-104	35,901.14	-
10.RD	USDA 2016-CS-11081000-018 C/S McKinney		2016-CS-11081000-018	2,691.25	-
10.RD	USDA Forest Serv Land Between the Lakes Botany		15-PA-11086002-006	311.58	-
10.RD	USDA FS 14CS11080400010 Avian-Buehler		14CS11080400010	7,929.25	-
10.RD	USDA FS 14JV11330144059- Poudyal		14-JV-11330144-059	6,634.34	-
10.RD	USDA FS AG4568C140036 SRS Support-Belli		AG-4568-C-14-0036	82,527.48	-
10.RD	USDA FS American Chestnut-MATCH		14-JV-11242316-148	7,357.59	-
10.RD	USDA FS Cherk Song Birds-Buehler MATCH		16-CS-11080400-009	2,700.53	-
10.RD	USDA FS Forestland Ownership-MATCH		16-JV-11242305-106	19,996.08	-
10.RD	USDA FS FPL Analysis Lumber-Young MATCH		16-JV-11111137-047	26,509.47	-
10.RD	USDA FS Genetic Specialist 14-Schl-MATCH		14-CS-11083133-001	60,560.03	-
10.RD	USDA FS Hst Dstrbn Thsnd Cnkr-Hadziabdic		15-CA-11272139-050	83,032.83	-
10.RD	USDA FS Land Between the Lakes-MATCH		16-PA-11086002-015	624.27	-
10.RD	USDA FS Mgt & Ecological Processes-Belli		15-CR-11330134-007	28,631.10	-
10.RD	USDA FS Natural Disaster BioSAT-Young		15-CR-11330136-098	(25,898.36)	-
10.RD	USDA FS NVUM -013 - Schexnayder MATCH		16-CS-11086001-013	18,577.06	-
10.RD	USDA FS NVUM -Schexnayder MATCH		16-CS-11080400-007	46,061.47	-
10.RD	USDA FS Tick Screening-Trout-Fryxell		AG-4660-C-17-0009	3,948.34	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.RD	USDA RD Feasibility Study TN - Poudyal		GRANT NO. 1	(0.46)	-
Subtotal Other Programs				<u>\$ 410,203.65</u>	<u>\$ -</u>
Subtotal Department of Agriculture				<u>\$ 17,921,709.45</u>	<u>\$ 2,384,655.92</u>
Department of Commerce					
National Institute of Standards and Technology (NIST)					
11.609	Measurement and Engineering Research and Standards			<u>\$ 21,343.18</u>	<u>\$ -</u>
Subtotal National Institute of Standards and Technology (NIST)				<u>\$ 21,343.18</u>	<u>\$ -</u>
National Oceanic and Atmospheric Administration (NOAA)					
11.459	Weather and Air Quality Research			<u>\$ 224,748.82</u>	<u>\$ -</u>
11.463	Habitat Conservation			<u>1,413.08</u>	<u>-</u>
11.478	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program			<u>48,016.84</u>	<u>28,723.72</u>
Subtotal National Oceanic and Atmospheric Administration (NOAA)				<u>\$ 274,178.74</u>	<u>\$ 28,723.72</u>
Other Programs					
11.003	Census Geography			<u>\$ 34,666.41</u>	<u>\$ -</u>
11.030	Science and Research Park Development Grants			<u>65,176.76</u>	<u>-</u>
Subtotal Other Programs				<u>\$ 99,843.17</u>	<u>\$ -</u>
Subtotal Department of Commerce				<u>\$ 395,365.09</u>	<u>\$ 28,723.72</u>

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Defense					
Advanced Research Projects Agency					
12.910	Research and Technology Development			\$ 1,009,672.28	\$ 274,031.08
Subtotal Advanced Research Projects Agency				\$ 1,009,672.28	\$ 274,031.08
Defense Threat Reduction Agency					
12.351	Scientific Research - Combating Weapons of Mass Destruction	Vanderbilt University	UNIV 59030	\$ 553,349.18 14,186.28	
				\$ 567,535.46	\$ 123,065.39
Subtotal Defense Threat Reduction Agency				\$ 567,535.46	\$ 123,065.39
Department of the Air Force, Materiel Command					
12.800	Air Force Defense Research Sciences Program			\$ 600,602.12	
		Iowa State University	421-21-03B	224,356.04	
		University of Texas at Arlington	12602014461	42,915.30	
		Virginia Polytechnic Institute and State University	450174-19121-06	107,279.80	
				\$ 975,153.26	\$ -
Subtotal Department of the Air Force, Materiel Command				\$ 975,153.26	\$ -
Department of the Navy, Office of the Chief of Naval Research					
12.300	Basic and Applied Scientific Research			\$ 5,853,713.23	
		American Lightweight Materials Manufacturing Innovation Institute	0001	24,558.68	
		Stanford University	61031338-120164	24,214.90	
		University of Colorado	1548375	11,840.26	
		University of North Texas	GF2707-3	59,121.01	
		University of Texas	1000001169	54,790.42	
				\$ 6,028,238.50	\$ 402,831.04
Subtotal Department of the Navy, Office of the Chief of Naval Research				\$ 6,028,238.50	\$ 402,831.04

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Security Agency					
12.901	Mathematical Sciences Grants			\$ 65,492.34	\$ -
Subtotal National Security Agency				\$ 65,492.34	\$ -
Office of the Secretary of Defense					
12.630	Basic, Applied, and Advanced Research in Science and Engineering	Battelle Memorial Institute	PO US001-0000504972 CO 7 MOD 6	\$ 643,792.53 159,814.77	
				\$ 803,607.30	\$ -
Subtotal Office of the Secretary of Defense				\$ 803,607.30	\$ -
U.S. Army Materiel Command					
12.431	Basic Scientific Research			\$ 1,545,720.60	\$ 137,804.96
Subtotal U.S. Army Materiel Command				\$ 1,545,720.60	\$ 137,804.96
U.S. Army Medical Command					
12.420	Military Medical Research and Development	American Burn Association	W81XWH0920194	\$ 2,516,995.95 1,256.23	
		Children's Hospital of Pittsburgh	19841	3,547.96	
		Children's Research Institute	W81XWH-12-1-0417	142.00	
		National Neurovision Research Institute	NNSP-CL-0811-0059-UT	(93.28)	
		National Trauma Institute	Unknown	42,149.39	
		University of Arkansas	253279	506,412.84	
		University of Pittsburgh	W81XWH-12-2-0023	109,800.00	
		University of Texas at San Antonio	159413/155536	179,589.73	
				\$ 3,359,800.82	\$ 310,005.84
Subtotal U.S. Army Medical Command				\$ 3,359,800.82	\$ 310,005.84
Other Programs					
12.750	Uniformed Services University Medical Research Projects	The Geneva Foundation	S-10301-02	\$ 6,324.34	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.902	Information Security Grants			79,086.09	-
12.903	GenCyber Grants Program			25,610.16	-
12.RD	ADL PAL Learning Science Community		W911QY-17-C-0034	39,944.66	-
12.RD	AF FA7014-10-D-0012-T13 Stewart		FA701410D0012 TO 13	610.16	-
12.RD	AF FA9101-15-D-0002 Moeller		FA9101-15-D-0002	308,475.39	-
12.RD	AF FA9101-15-D-0002/0002 VAKILI		FA9101-15-D-0002/002	8,301.11	-
12.RD	AF FA9101-15-D-0002/0003 C/S SCHMISSEUR		FA9101-15-D-0002/003	29,626.15	19,244.00
12.RD	AF FA9101-15-D-0002/0004 MOELLER		FA9101-15-D-0002-004	2,027.30	-
12.RD	AF FA9101-15-D-0002/0005 DAVENPORT		FA9101-15-D-0002-005	32,123.96	-
12.RD	Air Force FA8601-16-D-0008 Stewart		FA8601-16-D-0008	340,511.82	-
12.RD	Air Force FA8650-13-C-2326 Frankel		FA8650-13-C-2326	71,841.32	-
12.RD	Air Force FA8650-15-C-5205 Babu		FA8650-15-C-5205	95,075.56	-
12.RD	Defenses and Countermeasures of Jamming Attacks in Wireless Mesh Networks		N00174-16-C-0015	124,393.63	-
12.RD	DLA-SPE300-15-G-0001 Sawhney		SPE300-15-G-0001	40,261.13	-
12.RD	DOD IPA Stewart (Werner) 2016		IPA DATED 7/29/2015	30,874.97	-
12.RD	DOD SOCOM H92222-17-C-0006 Steadman		H92222-17-C-0006	23,508.01	-
12.RD	DOD USUHS TSNRP HU0001-15-1-TS12 Thomas		HU0001-15-1-TS12	15,155.02	-
12.RD	DTRA-SWARM-Hall		SWARM	392.54	-
12.RD	MOSAIC mPerf		2017-17042800006	16,103.86	-
12.RD	SERDP W912HQ11C0067 Bioremedial-Jardine		W912HQ-11-C-00067	96,342.25	-
12.RD	TSNRP Gr HU0001-10-1-TS04-N10-P01		HU0001101TS04-N10P01	13,253.57	24,496.44
12.RD	TSNRP Grant HU0001-15-1-TS08-N15-P01		HU0001101TS08-N15P01	214,897.62	77,589.51

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12.RD	USACE W91237-15-P-0055 LPMS/BCM Bray		W91237-15-P-0055	21,289.78	-
12.RD	USACE W912DW-17-P-0043 Loeffler		W912DW-17-P-0043	873.85	-
12.RD	USACE W912HQ-13-C-0055 Loeffler		W912HQ-13-C-0055	371,563.08	-
12.RD	USACE W912HQ-13-C-0069 Parker		W912HQ-13-C-0069	174,675.73	-
12.RD	Advanced Distributed Engine Control	Ohio Aerospace Institute	FA8650-14-D-2410	125,221.75	36,985.00
12.RD	ALMMII - LIFT TEMP5 R2 0003C-7 C/S Feng	American Lightweight Materials Manufacturing Innovation Institute	0003C-7 TMP5 R2 LIFT	40,115.84	-
12.RD	IQMRI_HR0011-16-C-0003 J. Schmisser	IQM Research Institute	HR0011-16-C-0003	57,583.09	-
12.RD	Penn State Univ SA17-06 C/S Coder	The Pennsylvania State University	SA17-06	19,625.23	-
12.RD	Penn State Univ SA17-07 Coder	The Pennsylvania State University	SA17-07	18,013.70	-
12.RD	Penn State Univ VLRCOE T1.2 C/S Coder	The Pennsylvania State University	5583-UT-ACC-0003	76,824.64	-
12.RD	Research Services	Massachusetts Institute of Technology	PO 7000293007 CHANGE	512,993.61	-
12.RD	Riverside Research PO#00044 R. Abedi	Riverside Research Institute	00044	6,792.04	-
12.RD	Southern Methodist Univ-AS107D-Williams	Southern Methodist University	GA00138-7500	45,416.44	-
12.RD	Univ of Connecticut 121617/5635390 Islam	University of Connecticut	121617 / 5635390	41,236.10	-
12.RD	Univ of Maryland43324-Z8192001Schmisser	University of Maryland	43324-Z8192001	32,561.88	-
12.RD	Vertical Lift 2015-332 T01 51% C/S Desmi	Vertical Lift Consortium	2015-332 TASK 01	\$ 78,521.65	\$ -
Subtotal Other Programs				\$ 3,238,049.03	\$ 158,314.95
Subtotal Department of Defense				\$ 17,593,269.59	\$ 1,406,053.26
Central Intelligence Agency					
13.RD	CIA 2014-14063000005 Humble		2014-14063000005	\$ 74,877.79	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
13.RD	Discovering theVulnerable Physical Routes in a Network		2013-13070300001	11,076.25	-
Subtotal Central Intelligence Agency				\$ 85,954.04	\$ -
Department of the Interior					
Bureau of Land Management					
15.232	Wildland Fire Research and Studies			\$ 50,681.97	\$ 8,864.00
Subtotal Bureau of Land Management				\$ 50,681.97	\$ 8,864.00
Fish and Wildlife Service					
15.608	Fish and Wildlife Management Assistance			\$ 7,628.41	
		State of Louisiana	2000091935	41,629.47	
		State of Louisiana	200167052	10,034.93	
		State of Louisiana	Unknown	25,134.48	
				\$ 84,427.29	\$ -
15.615	Cooperative Endangered Species Conservation Fund			1,550.44	-
15.634	State Wildlife Grants			\$ 59,770.26	
		Kentucky Waterways Alliance	4243111130000D2	10,525.18	
		Southeast Aquatic Resources Partnership	FLSWG_T45-F16AF00526	23,283.73	
		The Nature Conservancy	SUBWARD NO: 1041-0003	15,275.47	
				108,854.64	-
15.655	Migratory Bird Monitoring, Assessment and Conservation			42,540.18	-
15.657	Endangered Species Conservation - Recovery Implementation Funds			\$ 119,133.94	
		Kentucky Waterways Alliance	F15AC00372	75,435.11	
				194,569.05	-
15.660	Endangered Species - Candidate Conservation Action Funds			24,282.78	-
15.664	Fish and Wildlife Coordination and Assistance			\$ 179,192.65	
		The Nature Conservancy	1041 UT 070116 01	(3,290.41)	
		The Nature Conservancy	TNOU 030115-3854-01		

State of Tennessee
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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Wildlife Management Institute	NALCC2011-17	4,609.23	
				180,511.47	-
Subtotal Fish and Wildlife Service				<u>\$ 636,735.85</u>	<u>\$ -</u>
National Park Service					
15.926	American Battlefield Protection			\$ 22,772.14	\$ -
15.945	Cooperative Research and Training Programs - Resources of the National Park System			497,601.67	-
15.946	Cultural Resources Management			<u>3,738.18</u>	<u>-</u>
Subtotal National Park Service				<u>\$ 524,111.99</u>	<u>\$ -</u>
Office of Surface Mining					
15.255	Science and Technology Projects Related to Coal Mining and Reclamation			\$ 95,569.15	\$ -
Subtotal Office of Surface Mining				<u>\$ 95,569.15</u>	<u>\$ -</u>
U.S. Geological Survey					
15.805	Assistance to State Water Resources Research Institutes			\$ 79,065.29	\$ -
15.807	Earthquake Hazards Program Assistance			831,787.75	-
15.808	U.S. Geological Survey_ Research and Data Collection			169,457.12	-
15.810	National Cooperative Geologic Mapping	Iowa State University	424-17-03	<u>\$ 29,288.11</u> <u>33,687.69</u>	
				62,975.80	-
15.812	Cooperative Research Units			<u>(1,410.55)</u>	<u>-</u>
Subtotal U.S. Geological Survey				<u>\$ 1,141,875.41</u>	<u>\$ -</u>

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Other Programs					
15.RD	Climate Change-Mediated Expansion of Utah Juniper Across the Bighorn Canyon Recreation Area		WNPA Award	\$ 4,822.72	\$ -
15.RD	USDI-USGS G17AC00039 Thomson		G17AC00039	33,803.18	-
Subtotal Other Programs				\$ 38,625.90	\$ -
Subtotal Department of the Interior				\$ 2,487,600.27	\$ 8,864.00
Department of Justice					
Bureau of Justice Assistance					
16.609	Project Safe Neighborhoods	City of Memphis Police Department	32173	\$ 9,601.80	\$ 9,601.80
16.738	Edward Byrne Memorial Justice Assistance Grant Program			14,732.00	-
16.833	National Sexual Assault Kit Initiative	City of Memphis	33271	132,846.95	132,846.95
Subtotal Bureau of Justice Assistance				\$ 157,180.75	\$ 142,448.75
National Institute of Justice					
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants	Arizona State University	15-697	\$ 422,433.79	
		City of New York	CT181620151415376	25,594.53	
		Lincoln Memorial University	LMU 004	6,804.00	
		Sam Houston State University	22092B	35,796.92	
		University of Colorado	1553431	36,411.54	
		University of Minnesota	A004374201	19,639.40	
				86,362.53	
				\$ 633,042.71	\$ 99,360.00
Subtotal National Institute of Justice				\$ 633,042.71	\$ 99,360.00

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Office for Victims of Crime					
16.582	Crime Victim Assistance/Discretionary Grants	International Association of Chiefs of Police	2014-VF-GX-K011	\$ 38,364.35	\$ 16,438.01
Subtotal Office for Victims of Crime				<u>\$ 38,364.35</u>	<u>\$ 16,438.01</u>
Other Programs					
16.RD	West VA Univ Sub 09-097VV-UT Steadman	West Virginia University	09-097VV-UT	\$ 3,901.31	\$ -
Subtotal Other Programs				<u>\$ 3,901.31</u>	<u>\$ -</u>
Subtotal Department of Justice				<u>\$ 832,489.12</u>	<u>\$ 258,246.76</u>
Department of Labor					
Employment Training Administration					
17.268	H-1B Job Training Grants	Memphis BioWorks Foundation	HG-26665-15-60-A-47	\$ 30,717.30	\$ 30,717.30
Subtotal Employment Training Administration				<u>\$ 30,717.30</u>	<u>\$ 30,717.30</u>
Other Programs					
17.303	Wage and Hour Standards			\$ 1,257,162.77	\$ -
Subtotal Other Programs				<u>\$ 1,257,162.77</u>	<u>\$ -</u>
Subtotal Department of Labor				<u>\$ 1,287,880.07</u>	<u>\$ 30,717.30</u>
Department of State					
Under Secretary for Public Diplomacy and Public Affairs					
19.040	Public Diplomacy Programs			\$ 40,809.68	\$ -
Subtotal Under Secretary for Public Diplomacy and Public Affairs				<u>\$ 40,809.68</u>	<u>\$ -</u>

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Other Programs					
19.033	Global Threat Reduction			\$ 1,674,512.91	\$ -
Subtotal Other Programs				\$ 1,674,512.91	\$ -
Subtotal Department of State				\$ 1,715,322.59	\$ -
Department of Transportation					
Federal Aviation Administration (FAA)					
20.109	Air Transportation Centers of Excellence			\$ 91,583.10	\$ -
Subtotal Federal Aviation Administration (FAA)				\$ 91,583.10	\$ -
Federal Highway Administration (FHWA)					
20.200	Highway Research and Development Program	National Academy of Sciences	NCHRP-183	\$ 256,328.35 14,818.40	
				\$ 271,146.75	\$ -
20.215	Highway Training and Education	California State University Long Beach Research Foundation	SG99416100	15,835.85	15,835.85
Subtotal Federal Highway Administration (FHWA)				\$ 286,982.60	\$ 15,835.85
Office of the Secretary (OST) Administration Secretariate					
20.701	University Transportation Centers Program	Florida Atlantic University	UR-K69	\$ 1,359,634.43 3,109.76	
		University of Illinois	2012-02061-04 A0694	1,137.72	
		University of Illinois	2013-05178-05	71,310.22	
		University of Maryland	36696-Z9600007	45,630.66	
		University of Wisconsin-Madison	396K594	178,107.71	
		Western Michigan University	DTRT-13-G-UTC60	86,345.18	
				\$ 1,745,275.68	\$ 226,848.13
20.761	Biobased Transportation Research			259,216.74	-
Subtotal Office of the Secretary (OST) Administration Secretariate				\$ 2,004,492.42	\$ 226,848.13

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Pipeline and Hazardous Materials Safety Administration					
20.700	Pipeline Safety Program State Base Grant			\$ (622.47)	\$ -
Subtotal Pipeline and Hazardous Materials Safety Administration				\$ (622.47)	\$ -
Other Programs					
20.RD	DOT FAA Altrnt Jet Fuel & Envrnt-Rials		AJFE	\$ (640.77)	\$ -
20.RD	Iowa Dept of Transport - Papanicolaou	State of Iowa	16635	16,932.31	-
20.RD	UNC-Chapel 5106576 Startup C/S Khattak	University of North Carolina	5106576	52,910.09	-
20.RD	Washington St DOT- GCB 1930 Papanicolaou	State of Washington	GCB 1930	10,451.73	-
Subtotal Other Programs				\$ 79,653.36	\$ -
Subtotal Department of Transportation				\$ 2,462,089.01	\$ 242,683.98
Department of the Treasury					
21.RD	IPA with Treaury- P Jain		IPA Pankaj Jain	\$ 19,205.09	\$ -
Subtotal Department of the Treasury				\$ 19,205.09	\$ -
Appalachian Regional Commission					
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			\$ 17,436.41	\$ -
23.RD	West Virginia Univ 17-110-UT Murray	West Virginia University	INDUSTRY ECOSYSTEM	102,973.00	-
Subtotal Appalachian Regional Commission				\$ 120,409.41	\$ -
National Aeronautics and Space Administration					
43.001	Science			\$ 858,439.78	
		Arizona State University	01-082	53,073.81	
		Arizona State University	10-254 MOD 7	63,690.08	
		Arizona State University	16-829	10,489.79	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Brown University	00000675	43,261.97	
		Johns Hopkins University	124810	56,992.08	
		Johns Hopkins University	125677	48,898.77	
		Mercyhurst University	M0250-UTK-201731	29,987.81	
		Search for Extraterrestrial Intelligence Institute	SC3132	143,765.52	
		Smithsonian Astrophysical Observatory	AR6-17009X	(9.84)	
		Smithsonian Astrophysical Observatory	G05-16009B	1,763.60	
		Space Telescope Science Institute	HSG-GO-14180.007-A	3,401.14	
		University of Washington	UWSC9720	16,076.17	
		Vanderbilt University	3801-019687	55,819.04	
		Vanderbilt University	3855-019687	13,870.65	
				\$ 1,399,520.37	\$ 28,884.77
43.002	Aeronautics	University of California, Los Angeles	2090-S-JB694	\$ 39,246.76	
		University of Wyoming	1002956A-TENN	79,821.11	
				119,067.87	-
43.003	Exploration			\$ 126,011.79	
		University of Central Florida	66016031-5	29,872.95	
				155,884.74	-
43.007	Space Operations			177,493.75	-
43.008	Education	National Institute of Aerospace	C17-2D00-UTSI	\$ 33,160.07	
		Vanderbilt University	2016-015735	10,873.93	
		Vanderbilt University	3795-019687	33,578.28	
		Vanderbilt University	3798-019687	9,899.08	
		Vanderbilt University	3800-019687	109,928.71	
		Vanderbilt University	3808-019687	1,244.00	
		Vanderbilt University	SUB. # 3797-019687 AMD 1	30,042.80	
				228,726.87	9,899.08
43.009	Cross Agency Support			21,044.66	-
43.RD	NASA JPL 1451872 Moersch		1451872	53,508.65	-
43.RD	NASA NNX17AI10A Heilbronn		NNX17AI10A	44,947.08	-
43.RD	NASA-JPL 1564519 Blalock		1564519	46,281.15	-
43.RD	Magnetic Positive Positioning	Vanderbilt University	21603-S9	1,666.65	1,666.65

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
43.RD	NASA WYIN Telescope Source Selection 2016B Observing Semester, dated 06-19-2016	California Institute of Technology	RSA No. 1556214	6,111.69	-
43.RD	Univ of New Hampshire 11-107-05 Townsend	University of New Hampshire	11-107	102,732.08	-
43.RD	Univ of Northern Iowa S564B Papanicolaou	University of Northern Iowa	S5645B	7,486.37	-
43.RD	University of Arizona PO #30948 Emery	University of Arizona	30948	106,755.71	22,897.75
43.RD	VANDERBILT UNIV. SUB#21603-S12C/S MOELLE	Vanderbilt University	21603-S12	(852.40)	-
Subtotal National Aeronautics and Space Administration				<u>\$ 2,470,375.24</u>	<u>\$ 63,348.25</u>
National Endowment for the Humanities					
45.161	Promotion of the Humanities_Research			\$ 162,385.87	\$ -
45.169	Promotion of the Humanities_Office of Digital Humanities	University of Minnesota	A004178401	606.06	-
Subtotal National Endowment for the Humanities				<u>\$ 162,991.93</u>	<u>\$ -</u>
Institute of Museum and Library Services					
45.312	National Leadership Grants			\$ (2,218.49)	\$ -
45.313	Laura Bush 21st Century Librarian Program			101,381.82	-
Subtotal Institute of Museum and Library Services				<u>\$ 99,163.33</u>	<u>\$ -</u>
National Science Foundation					
47.041	Engineering Grants			\$ 7,335,318.52	
		Lehigh University	543406-78001	33,019.16	
		University of North Carolina	5037373	5,844.76	
		University of Washington	UWSC7874 (763076)	92,974.75	
				<u>\$ 7,467,157.19</u>	<u>\$ 43,090.24</u>
47.049	Mathematical and Physical Sciences			\$ 5,105,628.48	
		The Ohio State University	60046595	59,696.65	
		University of Louisville	ULRF 15-0672-01	62,664.79	
		Vanderbilt University	2710-014625	(60.53)	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Vanderbilt University	DMR-1507505	18,702.72	
		Washington State University	118207 G003113	(1,159.69)	
47.050	Geosciences			\$ 701,014.12	5,245,472.42
		Mississippi State University	G151-15-W5033	7,774.95	
		State University of New York	R1041551	74,571.26	
		University of Colorado	1000278842	4,700.00	
		University of Illinois	072212-14705	32,315.25	
					820,375.58
47.070	Computer and Information Science and Engineering			\$ 5,274,823.44	
		Asheville-Buncombe Technical Community College	1501535	7,319.17	
		Carnegie Mellon University	1122183-333033	105,444.90	
		University of Chicago	FP061067-A	21,180.00	
		University of Illinois	083842-16054	1,427,927.22	
		University of Illinois	2011-00318-04	398,277.31	
		University of Illinois	2012-04822-03	(21,696.49)	
		University of New Mexico	063045-87H2	352,928.73	
		University of Southern California	65744092	41,081.10	
		Washington State University	123507_G003407	58,637.36	
		Winston-Salem State University	CNS-1457855	8,412.86	
					7,674,335.60
47.074	Biological Sciences			\$ 7,493,814.12	
		Dartmouth College	R823	5,755.55	
		Iowa State University	420-40-49A	11,926.07	
		Portland State University	201REY307	63,085.65	
		University of Florida	UFDSP00010128	21,496.15	
		University of Georgia	RR182-436/4945206	(4,000.94)	
		University of Georgia	RR182-466/S001303	25,550.96	
		University of Wisconsin-Madison	697K734	25,435.91	
		Washington State University	123664-G003629	99,370.53	
					7,742,434.00
47.075	Social, Behavioral, and Economic Sciences			\$ 183,489.83	
		The Pennsylvania State University	5634-UT-NSF-0274	1,098.89	
		University of Colorado	1548373	68,571.01	
		University of Southern Mississippi	USM-GR05085-005-02	20,505.33	
					273,665.06
47.076	Education and Human Resources			\$ 7,680,962.40	
		Carleton College	28-1976-MIDDLE	27,726.28	
		Howard University	DUE-1255441	22,837.38	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Indian River State College	1600558	25,465.96	
		Madisonville Community College	KCT-PS-698	39,692.70	
		National Center for Science and Civic Engagement	73299-1128962-3	735.00	
		Radford University	F21023	1,382.88	
		Rochester Institute of Technology	31587-01	11,217.08	
		University Auxiliary and Research Services Corporation	92240/85026-TTU	9,294.11	
		University of Pittsburgh	0052307 (011908-01)	88,799.78	
		University of Tulsa	DUE-0856482	12,720.29	
		University of Wisconsin-Madison	565K950	178,950.51	
				<u>8,099,784.37</u>	1,234,684.76
47.078	Polar Programs			45,893.80	-
47.079	Office of International Science and Engineering			198,923.28	-
47.080	Office of Cyberinfrastructure			737,974.32	-
47.081	Office of Experimental Program to Stimulate Competitive Research			21,556.59	-
47.083	Office of Integrative Activities	University of Southern California	10421554	80,409.97	-
47.RD	CURRENT Membership Admin - Federal		MEMBERSHIP AGREEMENT	463,073.97	-
47.RD	IPA with NSF- J Haddock		DUE-1352047	217,003.92	-
47.RD	IUCRC Federal Membership Rawn		IUCRC FEDERAL MEMBER	45,397.77	-
47.RD	NSF 1650390 PSC Gross		1650390	198,525.80	-
47.RD	NSF 1738262 Faber		1738262	4,978.39	-
47.RD	NSF VSEE Retirement E Serpersu		14MOR1299/14MOR1300	(13,380.19)	-
47.RD	Auburn Univ 17-VP-200591-UTK PSC Lenhart	Auburn University	17-VP-200591-UTK	3,852.66	-
47.RD	Georgia Tech RH188-G2 Reger	Georgia Institute of Technology	RH188-G2	79,473.35	-
47.RD	Univ of Notre Dame QuarkNet Gollapinni	University of Notre Dame	QARKNET PROGRAM	4,982.86	-
Subtotal National Science Foundation				<u>\$ 39,411,890.71</u>	<u>\$ 1,608,682.09</u>

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Smithsonian Institution					
60.RD	Solar B X Ray Telescope		SV4-84001	\$ 1,911.96	\$ -
60.RD	SSEC Colorado LASER		16-PO-620-0000344084	37,063.54	-
Subtotal Smithsonian Institution				\$ 38,975.50	\$ -
Tennessee Valley Authority					
62.RD	Strategic Growth and Optimation Plan		2228694	\$ 20,000.00	\$ -
62.RD	Study of Selected Military Bases in Tennessee		2212310	99,633.09	-
62.RD	TVA PO #1759405 Paddling Map 15 Carroll		1759405	23,921.05	-
62.RD	TVA PO #1768937 (Contract 7493) Angst		1768937 (7493)	1,971.27	-
62.RD	TVA PO #1988714 Henson Branch-Horn		1988714	11,746.57	-
62.RD	TVA PO #2104648 99998950 Murray		2104648 99998950	61,682.00	-
62.RD	TVA PO #2268025 (Travel) Angst		2268025 (7493)	1,057.69	-
62.RD	TVA PO #2274759 (Travel) Angst		2274759 (7493)	7,063.66	-
62.RD	TVA PO #2274945 (Travel 7493) Angst		2274945 (7493)	2,939.10	-
62.RD	TVA PO #2532501 (7493) Travel Only Angst		2532501 (7493)	3,832.57	-
62.RD	TVA PO #2538669 (Travel) (7493) Angst		2538669 (7493)	59,793.37	-
62.RD	TVA PO #2705772 (Travel) (7493) Angst		2705772 (7493)	3,606.89	-
62.RD	TVA PO #2749142 (Travel) (7493) Angst		2749142 (7493)	15,857.62	-
62.RD	TVA PO #3024664 (Travel) (7493) Angst		3024664 (7493)	2,457.18	-
62.RD	TVA PO #3036837 Water Trails Carroll 17		3036837	253.84	-
62.RD	TVA Propagation Vaccinium ellottii-Wadl		666420	(285.14)	-
62.RD	TVA Reintro of Ruth's Aster-Hadziabdic		1733982	11,181.87	-

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62.RD	TVA Seed Prop of Lilium - Klingeman		4912-80291640	814.87	-
62.RD	TVA Tree Improvement FY 17-Schlarbaum		2646637	8,186.16	-
62.RD	TVA Visitor Impact on Reservoirs-AgEcon		766357	100,982.07	-
Subtotal Tennessee Valley Authority				\$ 436,695.73	\$ -
Department of Veterans Affairs					
64.022	Veterans Home Based Primary Care			\$ 71,181.73	\$ -
64.034	VA Assistance to United States Paralympic Integrated Adaptive Sports Program			18,357.34	-
64.RD	VA Medical Center Agmt-Slominski		1IPIBX001607-01VA	(5,868.35)	-
64.RD	VA Medical Center IPA Agreements		Unknown	2,321.01	-
64.RD	Veterans Admin Medical Ctr IPA Hopko		IPA DATED 7/11/2014	(1,250.64)	-
Subtotal Department of Veterans Affairs				\$ 84,741.09	\$ -
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	\$ (336.61) 166,422.80 (0.02)	
				\$ 166,086.17	\$ 166,086.19
Subtotal Office of Air and Radiation				\$ 166,086.17	\$ 166,086.19
Office of Research and Development (ORD)					
66.509	Science To Achieve Results (STAR) Research Program	Emory University Johns Hopkins University University of California	T602415 2003148196 9353SC	\$ 31,439.86 14,861.00 52,254.32	
				\$ 98,555.18	\$ -

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66.516	P3 Award: National Student Design Competition for Sustainability			4,532.11	-
Subtotal Office of Research and Development (ORD)				\$ 103,087.29	\$ -
Office of Water					
66.440	Urban Waters Small Grants			\$ 19,823.00	\$ -
66.461	Regional Wetland Program Development Grants			13,472.06	-
66.481	Lake Champlain Basin Program	Auburn University	13-ACES-375474-UT	487.59	-
Subtotal Office of Water				\$ 33,782.65	\$ -
Other Programs					
66.RD	US EPA IPA NC-0304-16-17N Tran		NC-0304-16-17N	\$ 28,210.85	\$ -
66.RD	Alaska -DEC (ClnupCalc)Task4 Dolislager	Alaska Department of Environmental Conservation	MOU DATED 11-21-13	119,610.08	-
Subtotal Other Programs				\$ 147,820.93	\$ -
Subtotal Environmental Protection Agency				\$ 450,777.04	\$ 166,086.19
Nuclear Regulatory Commission					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 80,284.83	\$ -
77.009	U.S. Nuclear Regulatory Commission Office of Research Financial Assistance Program			31,139.21	-
Subtotal Nuclear Regulatory Commission				\$ 111,424.04	\$ -
Department of Energy					
81.049	Office of Science Financial Assistance Program			\$ 7,171,507.12	
		Carnegie Institution for Science	4-10114-12	149,168.31	
		Georgia Institute of Technology	RD537-S1	17,005.51	
		Louisiana State University	44159 2016-2018	52,523.23	

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		Oregon State University	F0760B-A	37,985.60	
		Purdue University	4105-65002	218,582.22	
		The Samuel Roberts Noble Foundation	2012-961-002	(2,431.47)	
		University of Notre Dame	202373	192,771.30	
		University of Notre Dame	202383UTK	14,975.84	
				<hr/>	
				\$ 7,852,087.66	\$ 1,867,225.51
81.057	University Coal Research			\$ 85,308.41	
		University of Illinois	2013-04279-0	60,694.27	
				<hr/>	
				146,002.68	-
81.086	Conservation Research and Development			\$ 251,421.25	
		Fraunhofer USA, Incorporated	DE-EE0006715-UTK	19,603.36	
		Institute for Advanced Composites	IACMI	11,088,919.65	
		Manufacturing Innovation		<hr/>	
				11,359,944.26	38,926.44
81.087	Renewable Energy Research and Development			\$ 608,908.47	
		Texas A&M University	06-S140675	301,266.40	
		Texas A&M University	06-S170617	109,309.67	
		University of California, Riverside	S000768	179,075.54	
				<hr/>	
				1,198,560.08	120,591.98
81.089	Fossil Energy Research and Development			\$ 411,170.69	
		University of North Dakota	UND10337	11,633.51	
				<hr/>	
				422,804.20	177,822.63
81.112	Stewardship Science Grant Program			\$ 1,423,264.91	
		Rutgers, The State University of New Jersey	5110	795,296.40	
				<hr/>	
				2,218,561.31	-
81.113	Defense Nuclear Nonproliferation Research			\$ 311,215.31	
		North Carolina State University	2014-0501-10-F1	123,375.86	
		University of California	9335	498,002.73	
				<hr/>	
				932,593.90	28,443.92
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance			\$ 474,724.07	
		Oak Ridge Associated Universities	301101	32,687.50	
		Oak Ridge Associated Universities	301137	37,562.50	
				<hr/>	
				544,974.07	109,238.40

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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	\$ 2,116,373.97 63,722.88 60,837.75 38,364.36 <u>132,872.06</u>	2,412,171.02 428,068.14
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	University of Illinois	DE-OE0000780	47,887.77	-
81.123	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	Florida Agricultural and Mechanical University	DE-NA0002630	\$ 99,160.35 294,407.33 <u>393,567.68</u>	17,000.00
81.135	Advanced Research Projects Agency - Energy	Electric Power Research Institute University of Minnesota	10004915 A005223301	\$ 1,950,429.96 7,038.08 <u>21,745.60</u>	1,979,213.64 553,038.44
81.RD	NREL XFC-7-70061-01 Zhang		XFC-7-70061-01	66,644.36	-
81.RD	Alliance Sustainable XEU-6-62565 Greene	Alliance for Sustainable Energy, Limited Liability Company	XEU-6-62565	3,764.61	-
81.RD	Alliance Sustainable XEU-6-62566 Greene	Alliance for Sustainable Energy, Limited Liability Company	XEC-6-62566-01	2,908.62	-
81.RD	Argonne 6F-30521 Truster	Argonne National Laboratory	6F-30521	122,395.53	-
81.RD	Argonne Natl Lab 3F-32544 Dongarra	Argonne National Laboratory	3F-32544	(1,055.05)	-
81.RD	Argonne Natl Lab 4F-30621 Greene	Argonne National Laboratory	4F-30621	31,966.63	-
81.RD	Battelle Memorial Inst 248092 Coble	Battelle Memorial Institute	248092	131,932.04	-
81.RD	Battelle Memorial PNNL 339110 Coble	Battelle Memorial Institute	339110	15,325.55	-
81.RD	Battelle Memoriial 248914 Coble (51%)	Battelle Memorial Institute	248914	29,367.98	-
81.RD	Benchmark and Analyze Open Source Parallel XX Libraries on Different High Performance Computing Architectures for Performance Prediction	UT-Battelle, Limited Liability Company	4000151414 MOD 1	16,253.78	-

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81.RD	Brookhaven National Lab 312946 Batista	Brookhaven National Laboratory	312946	35,908.11	-
81.RD	Carnegie Institution of Washington Lang	Carnegie Institution for Science	4-10469-27	51,038.24	-
81.RD	Design and Benchmark Architecture Agnostic Scalable Library of Data Parallel Kernels for Big Data Architecture	UT-Battelle, Limited Liability Company	4000146136	3,890.16	-
81.RD	Develop and Benchmark Architecture Agnostic Scalable Library of Data Parallel Kernels for Big Data Architecture	UT-Battelle, Limited Liability Company	4000146137	8,452.91	-
81.RD	Dry Cooling Using Materials	Los Alamos National Laboratory	428790	18,852.88	18,852.88
81.RD	Fabricate Aluminizing of Ni-based 31V Alloy for Valve Application	UT-Battelle, Limited Liability Company	4000146841 MOD 1	19,154.93	-
81.RD	FERMI Research Alliance 626582 Spanier	Fermi Research Alliance, Limited Liability Company	626582	44,848.51	-
81.RD	High Resolution Flood Risk Assessment	UT-Battelle, Limited Liability Company	4000145954 MOD 2	52,863.05	-
81.RD	Improving Interfacial Strength of 3-D Printed ABS Weld Lines: Compatibilized "Stripe" Deposition	UT-Battelle, Limited Liability Company	4000145173 MOD 02	69,251.21	-
81.RD	Lawrence Berkeley NatLab7229788(51)Hazen	Lawrence Berkeley National Laboratory	7229788	98,343.94	-
81.RD	LLNL B614597 Tomov	Lawrence Livermore National Laboratory	B614597	46,952.07	-
81.RD	LLNL B618344 Kamyshkov	Lawrence Livermore National Laboratory	B618344	5,825.17	-
81.RD	LLNL B621559 Dongarra	Lawrence Livermore National Laboratory	B621559	114,014.55	-
81.RD	Los Alamos National Lab 400518 Batista	Los Alamos National Laboratory	400518	49,682.81	-
81.RD	Los Alamos Natl Lab 425211 Wirth	Los Alamos National Laboratory	425211	31,192.32	-
81.RD	Microbial Enzyme Decomposition	UT-Battelle, Limited Liability Company	DE-AC05-00OR22725	4,728.79	-
81.RD	NC State Univ. - 2016-2122-01 Weber	North Carolina State University	2016-2122-01	16,535.84	-
81.RD	Nuclear Hybrid Energy Systems: Desalination Case Study	UT-Battelle, Limited Liability Company	4000153274	1,683.41	-

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81.RD	Sandia National Lab PO 179051 Dongarra	Sandia National Laboratory	1790512	36,888.48	-
81.RD	Sandia National Lab PO 1790519 Dongara	Sandia National Laboratory	1790519	20,236.45	-
81.RD	Sandia Natl Lab PO1445803 Andrew Yu	Sandia National Laboratory	1445803	118,364.61	-
81.RD	Signal Processing and Communications Research for Global Security Applications	UT-Battelle, Limited Liability Company	4000149546	39,139.40	-
81.RD	Signal Processing and Machine Learning Efforts by Developing and Optimizing Algorithms in Matlab	UT-Battelle, Limited Liability Company	4000140763 MOD 5	40,229.52	-
81.RD	Simulation and Analysis of the SLIMER (Scintillating Layer Imaging Microscope for Environmental Research) Detector	Los Alamos National Laboratory	424741	520.00	-
81.RD	UF6 Enrichment Levels	Argonne National Laboratory	7F-30121	43,358.86	43,358.86
81.RD	UT-Battelle	UT-Battelle, Limited Liability Company	B0199BTL	27,172,387.51	-
Subtotal Department of Energy				\$ 58,072,216.05	\$ 3,402,567.20
Department of Education					
Institute of Education Sciences					
84.305	Education Research, Development and Dissemination	Brown University	R305E150005	\$ 82,341.54	
		Georgia State University	SP00010952-03	376,678.69	
		University of Michigan	R305H140028	16,507.76	
		University of Pittsburgh	R305H140112	176,488.48	
		University of Wisconsin-Madison	480K303	35,202.86	
				\$ 687,219.33	\$ 411,881.55
84.324	Research in Special Education	Salus University	UTK 88401 15-16	\$ 29,852.27	
				4,000.00	
				33,852.27	12,317.51
Subtotal Institute of Education Sciences				\$ 721,071.60	\$ 424,199.06

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Office of Career, Technical, and Adult Education					
84.051	Career and Technical Education -- National Programs	Shelby County Schools	2017-0406	\$ 20,060.86	\$ 20,060.86
Subtotal Office of Career, Technical, and Adult Education				\$ 20,060.86	\$ 20,060.86
Office of Elementary and Secondary Education					
84.287	Twenty-First Century Community Learning Centers	Virginia Department of Education	780-86788-SC287C1	\$ 89,316.36	\$ 89,316.36
84.365	English Language Acquisition State Grants			136,969.49	-
84.366	Mathematics and Science Partnerships	Bedford County	S366B130043	148,191.82	-
Subtotal Office of Elementary and Secondary Education				\$ 374,477.67	\$ 89,316.36
Office of Innovation and Improvement					
84.411	Education Innovation and Research (formerly Investing in Innovation (i3) Fund)	National Board for Professional Teaching Standards	ATLAS	\$ 17,509.69	\$ 17,509.69
Subtotal Office of Innovation and Improvement				\$ 17,509.69	\$ 17,509.69
Office of Postsecondary Education					
84.407	Transition Programs for Students with Intellectual Disabilities into Higher Education			\$ 91,645.75	\$ -
Subtotal Office of Postsecondary Education				\$ 91,645.75	\$ -
Office of Special Education and Rehabilitative Services					
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	Salus University	UTK 88402 16-17	\$ 171,690.59	\$ -
Subtotal Office of Special Education and Rehabilitative Services				\$ 171,690.59	\$ -
Other Programs					
84.116	Fund for the Improvement of Postsecondary Education	University of Minnesota	A004497004	\$ 51,344.01	\$ 51,344.01

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	Battelle, Limited Liability Company	366844	131.92	131.92
84.396	State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	Smithsonian Institution	U396B100097	200,009.53	200,009.53
Subtotal Other Programs				<u>\$ 251,485.46</u>	<u>\$ 251,485.46</u>
Subtotal Department of Education				<u>\$ 1,647,941.62</u>	<u>\$ 802,571.43</u>
National Archives and Records Administration					
89.003	National Historical Publications and Records Grants			<u>\$ 156,333.13</u>	<u>\$ -</u>
Subtotal National Archives and Records Administration				<u>\$ 156,333.13</u>	<u>\$ -</u>
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	<u>\$ 86,285.59</u>	<u>\$ -</u>
Subtotal Administraion for Children and Families				<u>\$ 86,285.59</u>	<u>\$ -</u>
Administration for Community Living					
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service			<u>\$ 29,115.41</u>	<u>\$ -</u>
Subtotal Administraion for Community Living				<u>\$ 29,115.41</u>	<u>\$ -</u>
Agency for Healthcare Research and Quality					
93.226	Research on Healthcare Costs, Quality and Outcomes			<u>\$ 260,464.66</u>	<u>\$ -</u>
Subtotal Agency for Healthcare Research and Quality				<u>\$ 260,464.66</u>	<u>\$ -</u>

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Centers for Disease Control and Prevention					
93.080	Blood Disorder Program: Prevention, Surveillance, and Research	University of North Carolina University of North Carolina	5103570 DD001155	\$ 9,592.00 (11,271.45)	
				\$ (1,679.45)	\$ -
93.136	Injury Prevention and Control Research and State and Community Based Programs			385,897.15	-
93.184	Disabilities Prevention	University of North Carolina	ATHN2011001	5,437.08	-
93.185	Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects			14,465.00	-
93.262	Occupational Safety and Health Program	Colorado State University Colorado State University	G-0054-1 G-41108-1	\$ 150,487.54 23,787.58 64,415.92	
				238,691.04	-
93.283	Centers for Disease Control and Prevention_ Investigations and Technical Assistance	Hemophilia of Georgia, Incorporated Hemophilia of Georgia, Incorporated	5 H30 MC 24046-05 5 H30 MC24046-04	\$ 15,596.26 (0.01)	
				15,596.25	-
93.319	Outreach Programs to Reduce the Prevalence of Obesity in High Risk Rural Areas			1,059,151.63	-
Subtotal Centers for Disease Control and Prevention				\$ 1,717,558.70	\$ -
Centers for Medicare and Medicaid Services					
93.611	Strong Start for Mothers and Newborns			\$ 58,034.83	\$ -
Subtotal Centers for Medicare and Medicaid Services				\$ 58,034.83	\$ -
Food and Drug Administration					
93.103	Food and Drug Administration_Research	Auburn University	16-AUFSI-360490-UM	\$ 16,396.00 (0.01)	

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		National Environmental Health Association	FY2016	138,506.25	
				\$ 154,902.24	\$ (0.01)
Subtotal Food and Drug Administration				\$ 154,902.24	\$ (0.01)
Health Resources and Services Administration					
93.110	Maternal and Child Health Federal Consolidated Programs			\$ 82,346.56	\$ -
93.247	Advanced Nursing Education Workforce Grant Program			342,556.10	-
93.359	Nurse Education, Practice Quality and Retention Grants			9,940.70	-
93.965	Coal Miners Respiratory Impairment Treatment Clinics and Services	The Research Foundation for the State University of New York	2002894170	5,317.58	-
Subtotal Health Resources and Services Administration				\$ 440,160.94	\$ -
National Institutes of Health					
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research			\$ 898,698.52	\$ 17,406.03
93.113	Environmental Health			1,367,692.92	-
93.121	Oral Diseases and Disorders Research	University of California	1350 G TB091	\$ 146,189.20 83,422.47	
				229,611.67	83,422.47
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education	Duke University Louisiana State University Louisiana State University University of Maryland	15-NIH-1022 ES 013648 PH-17-114-003 15348	\$ 265,762.05 26,275.52 144,390.73 3,744.06 19,192.67	
				459,365.03	-
93.172	Human Genome Research	European Molecular Biology Laboratory	HG003345	41,582.25	-
93.173	Research Related to Deafness and Communication Disorders	University of Iowa	Unknown	\$ 1,523,367.70 2,599.40	
				1,525,967.10	-

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93.213	Research and Training in Complementary and Integrative Health	Texas Tech University	21F096-01	52,376.68	-
93.233	National Center on Sleep Disorders Research			409,366.00	-
93.242	Mental Health Research Grants	Emory University	R34MH106368	\$ 499,550.04	
		University of North Carolina at Greensboro	SUBAWARD NO. 20140094	2,583.14	
		Vanderbilt University	UNIV59261	9,428.15	
		Yale University	GK000701	7,332.44	
				<u>6,311.63</u>	
				525,205.40	2,583.14
93.273	Alcohol Research Programs	Jackson Laboratory	205423-0-SERV	\$ 2,581,519.82	
		New York University	75764	65,730.12	
		New York University	5 P50 AA 017823-07	157,114.62	
				<u>68,588.11</u>	
				2,872,952.67	47,213.37
93.279	Drug Abuse and Addiction Research Programs	Boston University	1 R21 DA 038738-01	\$ 1,396,481.81	
		Dartmouth College	R847	12,763.80	
		Oregon Social Learning Center	R01DA040416	31,683.42	
		University of California	73257613	58,570.00	
		University of California, San Diego	DA037844	388,894.98	
				<u>(87,581.37)</u>	
				1,800,812.64	65,858.88
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health	Northwestern University	SP0009270-PROJ0007233	\$ 2,915,938.85	
		Northwestern University	SP0039942-PROJ0011243	8.83	
		University of Nebraska Omaha	34-2005-2065-001	13,755.19	
				<u>9,058.04</u>	
				2,938,760.91	13,764.02
93.307	Minority Health and Health Disparities Research	Bayou Clinic	U54MD008602-001MTSU	\$ 92,379.41	
		H. Lee Moffitt Cancer Center and Research Institute	11-19002-99-01-G1	12,468.34	
		Johns Hopkins University	2002898159	78,388.38	
		Meharry Medical College	5U54MD007593-08	2,843.80	
		Rice University	R22753	<u>154,129.93</u>	
				340,209.86	236,350.14

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93.310	Trans-NIH Research Support	Louisiana State University University of Washington	16-91-033 Unknown	\$ 191,812.15 33,517.04 <u>51,906.02</u>	277,235.21 -
93.350	National Center for Advancing Translational Sciences	MedStar Health Research Institute	Unknown	(385.96)	-
93.351	Research Infrastructure Programs			281,953.50	30,777.66
93.361	Nursing Research	University of Rochester	NR014451-416553G	\$ 51,717.23 <u>168,715.35</u>	220,432.58 -
93.389	National Center for Research Resources			75,140.79	(8,380.06)
93.393	Cancer Cause and Prevention Research	H. Lee Moffitt Cancer Center and Research Institute Rice University St. Jude Children's Research Hospital University of Pittsburgh	Unknown R22613 4 R01 CA 157838-05 19106	\$ 1,446,983.19 1,239.10 70,350.30 9,765.67 <u>0.01</u>	1,528,338.27 96,061.23
93.394	Cancer Detection and Diagnosis Research	Beckman Research Institute of the City of Hope Fred Hutchinson Cancer Research Center New York University	522422.200145.669302 872125 72432-1127175-2	\$ 622,677.67 92,838.48 14,454.46 <u>180,433.37</u>	910,403.98 88,647.75
93.395	Cancer Treatment Research	National Childhood Cancer Foundation Southwest Oncology Group St. Jude Children's Research Hospital	98543-1033 U10CA037429 110068185-7707886	\$ 1,659,094.33 4.32 52,125.00 <u>33,881.07</u>	1,745,104.72 33,729.21
93.396	Cancer Biology Research	University of Minnesota	PO04798801	\$ 28,474.78 <u>34,310.16</u>	62,784.94 -
93.397	Cancer Centers Support Grants			652,612.99	44,055.33
93.398	Cancer Research Manpower			165,012.73	-
93.399	Cancer Control	Dana-Farber Cancer Institute	1283501	30,640.65	-

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93.837	Cardiovascular Diseases Research	Children's Hospital Research Foundation	131950	\$ 5,620,971.05 (4,483.16)	
		Children's Hospital Research Foundation	138511	103,355.16	
		The Methodist Hospital Research Institute	15420003-0041	(50.62)	
		University of Michigan	3001621714	51.92	
		University of Pittsburgh	R01 HL122144	31,074.95	
		University of Pittsburgh	Unknown	25,224.20	
		Vanderbilt University Medical Center	2 R01 HL-132338	106,960.55	
		Wayne State University	HL-109090	351.01	
				5,883,455.06	-
93.838	Lung Diseases Research	Seattle Children's Hospital	1U01 HL 114623-01	\$ 1,221,684.44 684.18	
		Vanderbilt University Medical Center	HL109977-05	(28,870.00)	
		Vanderbilt University Medical Center	VUMC38680	32,599.31	
				1,226,097.93	-
93.839	Blood Diseases and Resources Research	St. Jude Children's Research Hospital	112246010-7730316	\$ (18,912.73) 78,893.91	
				59,981.18	78,893.91
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	Children's Research Institute	1 P50 AR 060836	\$ 2,391,572.34 745.00	
		Children's Research Institute	1 R01 AR 062380	285.00	
				2,392,602.34	-
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research	Case Western Reserve University	DK094157	\$ 5,785,580.18 2,520.03	
		Case Western Reserve University	DK104438	386.59	
		Case Western Reserve University	RES508615	8,720.52	
		Case Western Reserve University	Unknown	150,406.57	
		Johns Hopkins University	Unknown	34,933.01	
		Kaiser Foundation Research Institute	RNG200628	17,257.22	
		Purdue University	4102-78590	30,133.35	
		The Research Institute at Nationwide Children's Hospital	82050015	(10,812.90)	
		The Research Institute at Nationwide Children's Hospital	82107815	2,073.27	
		Tufts Medical Center	5008763-SERV	69,526.90	
		University of Alabama	000504038-001	33,916.68	
		University of Alabama	5 R01 DK 082753-08	(3,012.84)	

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		University of California	Unknown	16,495.86	
		University of California, Irvine	2014-3099	132,416.46	
		University of Cincinnati	METABOLIC SENSORS	(6,264.61)	
		University of Missouri	0056364-00043157	185,991.85	
		University of Missouri	DK093592	(1,109.41)	
		University of Pennsylvania	5 UH3 DK 102384-05	8,662.83	
		University of Pennsylvania	5 UH3 DK102384-04	1,769.06	
		University of South Carolina	16-2994	13,214.16	
		University of South Carolina	R01-DK056746	0.23	
				6,472,805.01	276,523.30
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	Cincinnati Children's Hospital Medical Center	3100494941	\$ 3,115,896.15 178,211.93	
		Massachusetts General Hospital	1 U01 NS 090259-01	18,883.34	
		University of Cincinnati	R01NS054794	24,174.46	
		University of Louisville Research Foundation	ULRF 11-0730-01	17,301.27	
		University of Pennsylvania	558624	(19,461.64)	
		University of Pittsburgh	0030451-126270	31.50	
				3,335,037.01	205,525.56
93.855	Allergy and Infectious Diseases Research	Brentwood Biomedical Research Institute	AI034431	\$ 5,463,796.95 (6,556.84)	
		Colorado State University	G-45858-1	2,219.20	
		Colorado State University	Unknown	127,067.53	
		Columbia University	12 GG011896-21	56,813.94	
		Columbia University	Unknown	17,983.02	
		Louisiana State University	SOD-16-136-006	76,387.63	
		Magee-Womens Research Institute	72920	9,080.00	
		St. Jude Children's Research Hospital	112213019-7705195	21,806.74	
		St. Jude Children's Research Hospital	112258016-7722342	7,746.28	
		St. Jude Children's Research Hospital	5 R01 AI 111449-02	(0.01)	
		St. Jude Children's Research Hospital	5 R01 AI 111449-03	161,591.34	
		St. Jude Children's Research Hospital	AI090810	0.07	
		University of California	46049851	20,717.92	
		University of California	9322SC	17,080.26	
		University of California, San Diego	4 UM1 AI 069536-10	15,088.63	
		University of Louisville	ULRF 15-0658-01	2,470.65	
		University of Louisville	ULRF-15-0382	30,049.14	
		University of New Mexico	3RX98	64,944.81	
		University of Oklahoma	2015-13	19,431.37	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Vanderbilt University	VUMC59336	53,999.46	
				6,161,718.09	459,270.43
93.859	Biomedical Research and Research Training			\$ 4,655,337.81	
		California Institute of Technology	Unknown	124,556.41	
		Jackson Laboratory	5 R01 GM 070683-10	25,682.64	
		Jackson Laboratory	5 R01 GM 070683-11	8,929.42	
		Memorial Sloan-Kettering Institute for Cancer Research	BD517143A	28,579.83	
		North Carolina State University	2015-2097-02	41,623.95	
		Rosalind Franklin University	212970UTHSC	(0.02)	
		University of Pittsburgh	0040632 (124394-4)	208,715.62	
				5,093,425.66	283,223.13
93.865	Child Health and Human Development Extramural Research			\$ 884,386.58	
		Stanford University	Unknown	(4,338.99)	
				880,047.59	97,300.00
93.866	Aging Research			\$ 1,983,684.82	
		Minneapolis Medical Research Foundation	AG029824	17,598.85	
		The Ohio State University	60053797	19,899.85	
		University of Michigan	3003764327	16,253.55	
				2,037,437.07	-
93.867	Vision Research			\$ 2,437,234.92	
		Emory University	5 R01 EY 017841-07	(11,295.50)	
		Emory University	T289010	37,918.06	
		University of Mississippi	15-03-031	80,685.31	
		University of Oklahoma	Unknown	25,543.12	
				2,570,085.91	29,370.28
93.879	Medical Library Assistance			\$ 11,980.08	
		University of Maryland	1600679	10,957.89	
		University of Maryland	1UG4LM012340-01		
				22,937.97	-
Subtotal National Institutes of Health				\$ 55,547,506.87	\$ 2,181,595.78
Office of the Secretary					
93.500	Pregnancy Assistance Fund Program	University of South Carolina	PO#2000009793	\$ 7,327.33	\$ -
Subtotal Office of the Secretary				\$ 7,327.33	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Substance Abuse and Mental Health Services Administration					
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	Shelby County Government	CA1314098	\$ (3,078.62)	\$ (3,078.62)
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	Buffalo Valley, Incorporated	TI025630	\$ 499,496.97 135,274.27	
				634,771.24	135,274.27
Subtotal Substance Abuse and Mental Health Services Administration				\$ 631,692.62	\$ 132,195.65
Other Programs					
93.848	Digestive Diseases and Nutrition Research			\$ 475,016.04	\$ -
93.RD	IPA with NIH L Klesges		IPA L Klesges	283,713.43	-
93.RD	Jackson Lab 207469 Langston	Jackson Laboratory	207469	19,152.34	-
93.RD	Univ Alabama Sub HHSN268200900047C	University of Alabama	000336417-005	27,438.50	-
93.RD	USF TrialNet Sub HHSN267200800019C	University of South Florida	HHSN267200800019C	2,482.29	-
93.RD	Wake Forest Sub HHSN268200900040C	Wake Forest University	WFUHS 330181	38,952.50	-
Subtotal Other Programs				\$ 846,755.10	\$ -
Subtotal Department of Health and Human Services				\$ 59,779,804.29	\$ 2,313,791.42
Department of Homeland Security					
Domestic Nuclear Detection Office (DNDO)					
97.077	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection			\$ 1,804,185.56	\$ 31,803.87
Subtotal Domestic Nuclear Detection Office (DNDO)				\$ 1,804,185.56	\$ 31,803.87

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Federal Emergency Management Agency (FEMA)					
97.005	State and Local Homeland Security National Training Program	Norwich University Applied Research Institutes	SA 2015-014	\$ 85,572.11	
		The Center for Rural Development	FY13-K00155-UT-I&Q	16,989.28	
		The Center for Rural Development	FY14-K00155-UT-EH	9,854.93	
		The Center for Rural Development	FY15-00190-03-UT	49,321.19	
		The Center for Rural Development	FY16-00097-SOI-UT	30,075.73	
		University of Texas at San Antonio	1000001516	47,818.89	
		University of Texas at San Antonio	26-0800-0562	26,521.07	
				\$ 266,153.20	\$ 159,912.07
97.047	Pre-Disaster Mitigation	Lousiana State University	96968	9,752.39	-
Subtotal Federal Emergency Management Agency (FEMA)				\$ 275,905.59	\$ 159,912.07
Science and Technology (S&T)					
97.061	Centers for Homeland Security	University of Maryland	41631 Z9373010	\$ 55,477.43	\$ -
97.062	Scientific Leadership Awards			183,668.92	-
97.104	Homeland Security-related Science, Technology, Engineering and Mathematics (HS STEM) Career Development Program			74,382.88	-
Subtotal Science and Technology (S&T)				\$ 313,529.23	\$ -
Subtotal Department of Homeland Security				\$ 2,393,620.38	\$ 191,715.94
Agency for International Development					
98.001	USAID Foreign Assistance for Programs Overseas			\$ 99,492.63	
		Florida Fish and Wildlife Conservation Commission	15116	37,596.44	
		Michigan State University	Unknown	32,907.39	
		State of Delaware	Unknown	73.32	
		State of South Carolina	P24014202015	23,920.96	
		State of Texas	463245	158,859.90	
		The Pennsylvania State University	5587-UT-KSU-6056	63,873.83	
		University of Washington	UWSC8693 (PO NO.	20,074.34	
				\$ 436,798.81	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
98.RD	Genetic Profiling of Sweet Sorghum Biofuel	National Academy of Sciences	ESP-A-00-05-00001-00	69,560.64	-
Subtotal Agency for International Development				\$ 506,359.45	\$ -
Total Research and Development Cluster				\$ 210,744,603.26	\$ 12,908,707.46
Student Financial Assistance Cluster					
Department of Education					
84.007	Federal Supplemental Educational Opportunity Grants			\$ 16,068,329.37	\$ -
84.033	Federal Work-Study Program			7,438,539.95	-
84.038	Federal Perkins Loan Program_Federal Capital Contributions			41,565,092.67	-
84.063	Federal Pell Grant Program			345,597,738.46	-
84.268	Federal Direct Student Loans			797,910,428.76	-
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)			430,483.01	-
84.408	Postsecondary Education Scholarships for Veteran's Dependents			5,413.76	-
Subtotal Department of Education				\$ 1,209,016,025.98	\$ -
Department of Health and Human Services					
93.264	Nurse Faculty Loan Program (NFLP)			\$ 1,525,795.71	\$ -
93.342	Health Professions Student Loans, Including Primary Care Loan/Loans for Disadvantaged Students			1,172,944.43	-
93.364	Nursing Student Loans			55,745.47	-
Subtotal Department of Health and Human Services				\$ 2,754,485.61	\$ -
Total Student Financial Assistance Cluster				\$ 1,211,770,511.59	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>CFDA</u>	<u>Program Name</u>	<u>Passed Through From</u>	<u>Other Identifying Number</u>	<u>Total Expenditures/Issues</u>	<u>Expenditures/Issues Passed Through to Subrecipients</u>
SNAP Cluster					
Department of Agriculture					
10.551	Supplemental Nutrition Assistance Program			\$ 1,602,896,550.34	\$ -
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			77,972,008.18	1,284,125.63
Subtotal Department of Agriculture				<u>\$ 1,680,868,558.52</u>	<u>\$ 1,284,125.63</u>
Total SNAP Cluster				<u>\$ 1,680,868,558.52</u>	<u>\$ 1,284,125.63</u>
Child Nutrition Cluster					
Department of Agriculture					
10.553	School Breakfast Program			\$ 113,084,083.32	\$ 112,913,679.88
10.555	National School Lunch Program			284,569,031.63	284,162,796.85
10.555	National School Lunch Program (Noncash Award)			41,338,625.37	41,338,625.37
10.556	Special Milk Program for Children			16,557.76	16,557.76
10.559	Summer Food Service Program for Children			<u>12,346,084.02</u>	<u>11,959,400.24</u>
Subtotal Department of Agriculture				<u>\$ 451,354,382.10</u>	<u>\$ 450,391,060.10</u>
Total Child Nutrition Cluster				<u>\$ 451,354,382.10</u>	<u>\$ 450,391,060.10</u>
Food Distribution Cluster					
Department of Agriculture					
10.565	Commodity Supplemental Food Program			\$ 1,022,246.17	\$ 957,130.79
10.565	Commodity Supplemental Food Program (Noncash Award)			2,826,045.53	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.568	Emergency Food Assistance Program (Administrative Costs)			1,972,085.72	1,920,179.36
10.569	Emergency Food Assistance Program (Food Commodities) (Noncash Award)			12,854,402.36	12,854,402.36
Subtotal Department of Agriculture				\$ 18,674,779.78	\$ 15,731,712.51
Total Food Distribution Cluster				\$ 18,674,779.78	\$ 15,731,712.51
Forest Service Schools and Roads Cluster					
Department of Agriculture					
10.665	Schools and Roads - Grants to States			\$ 163,444.54	\$ 163,444.54
Subtotal Department of Agriculture				\$ 163,444.54	\$ 163,444.54
Total Forest Service Schools and Roads Cluster				\$ 163,444.54	\$ 163,444.54
Section 8 Project-Based Cluster					
Department of Housing and Urban Development					
14.195	Section 8 Housing Assistance Payments Program			\$ 173,678,798.65	\$ -
Subtotal Department of Housing and Urban Development				\$ 173,678,798.65	\$ -
Total Section 8 Project-Based Cluster				\$ 173,678,798.65	\$ -
CDBG - Entitlement Grants Cluster					
Department of Housing and Urban Development					
14.218	Community Development Block Grants/Entitlement Grants	Knox County Community Development Department	15-260	\$ (0.02)	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>CFDA</u>	<u>Program Name</u>	<u>Passed Through From</u>	<u>Other Identifying Number</u>	<u>Total Expenditures/Issues</u>	<u>Expenditures/Issues Passed Through to Subrecipients</u>
		Knox County Community Development Department	16-215	10,000.00	
				\$ 9,999.98	\$ -
	Subtotal Department of Housing and Urban Development			\$ 9,999.98	\$ -
	Total CDBG - Entitlement Grants Cluster			\$ 9,999.98	\$ -
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)			\$ 813,541.33	\$ 797,816.48
14.272	National Disaster Resilience Competition			654,994.36	312,291.91
	Subtotal Department of Housing and Urban Development			\$ 1,468,535.69	\$ 1,110,108.39
	Total CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster			\$ 1,468,535.69	\$ 1,110,108.39
Housing Voucher Cluster					
Department of Housing and Urban Development					
14.871	Section 8 Housing Choice Vouchers			\$ 39,574,440.57	\$ -
14.879	Mainstream Vouchers			258,211.00	-
	Subtotal Department of Housing and Urban Development			\$ 39,832,651.57	\$ -
	Total Housing Voucher Cluster			\$ 39,832,651.57	\$ -
Fish and Wildlife Cluster					
Department of the Interior					
15.605	Sport Fish Restoration			\$ 8,603,342.18	\$ -
15.611	Wildlife Restoration and Basic Hunter Education	Arkansas Game and Fish Commission	AR-W-F14AF0139	\$ 18,049,577.90	
				62,136.21	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Arkansas Game and Fish Commission	SUBAWARD TO F14AF01117	13,964.64	
		Commonwealth of Kentucky	PON2 66015000009841	(164.63)	
		Commonwealth of Kentucky	PON2 66016000029471	37,198.79	
		Commonwealth of Virginia	2014-14942	129,191.33	
		State of Georgia	GEORGIA NBWCI	138,138.59	
		State of Georgia	STATE CONTRACT	49,529.23	
		State of Kansas	MOA	14,185.00	
		State of Nebraska	W-117-T-1	42,142.42	
		State of New Jersey	8087243	(4,018.91)	
		State of Ohio	COOPERATIVE AGREEMEN	69.75	
		State of Oklahoma	F14AF00963 W-176-C-1	20,625.47	
		State of Pennsylvania	NBWCI	15,554.88	
				<u>18,568,130.67</u>	<u>-</u>
	Subtotal Department of the Interior			<u>\$ 27,171,472.85</u>	<u>\$ -</u>
	Total Fish and Wildlife Cluster			<u>\$ 27,171,472.85</u>	<u>\$ -</u>
Employment Service Cluster					
Department of Labor					
17.207	Employment Service/Wagner-Peyser Funded Activities			\$ 10,745,482.03	\$ 61,749.57
17.801	Disabled Veterans' Outreach Program (DVOP)			2,526,878.78	-
17.804	Local Veterans' Employment Representative Program			<u>405,495.06</u>	<u>-</u>
	Subtotal Department of Labor			<u>\$ 13,677,855.87</u>	<u>\$ 61,749.57</u>
	Total Employment Service Cluster			<u>\$ 13,677,855.87</u>	<u>\$ 61,749.57</u>
WIOA Cluster					
Department of Labor					
17.258	WIOA Adult Program			\$ 16,663,708.44	
		Southeast Tennessee Development District	LW05F171ADULT17	160.00	
				<u>\$ 16,663,868.44</u>	<u>\$ 12,993,360.31</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
17.259	WIOA Youth Activities	Alliance for Business and Training Southeast Tennessee Development District	LW01P151YOUTH16 LW05P161YOUTH17	\$ 15,856,466.72 303,461.85 64.00	
				16,159,992.57	12,759,562.85
17.278	WIOA Dislocated Worker Formula Grants	Southeast Tennessee Development District Upper Cumberland Human Resource Agency	LW05F171DSLWK17 WORKFORCE INVESTMENT	\$ 20,019,076.73 96.00 1,185.00	
				20,020,357.73	15,701,984.76
Subtotal Department of Labor				\$ 52,844,218.74	\$ 41,454,907.92
Total WIOA Cluster				\$ 52,844,218.74	\$ 41,454,907.92
Highway Planning and Construction Cluster					
Department of Transportation					
20.205	Highway Planning and Construction	Vanderbilt University	KV #3822-S1	\$ 792,302,143.51 45,433.85	
				\$ 792,347,577.36	\$ 111,814,991.93
20.219	Recreational Trails Program			2,581,945.95	2,041,632.07
Subtotal Department of Transportation				\$ 794,929,523.31	\$ 113,856,624.00
Total Highway Planning and Construction Cluster				\$ 794,929,523.31	\$ 113,856,624.00
Federal Transit Cluster					
Department of Transportation					
20.500	Federal Transit_Capital Investment Grants			\$ 3,106,041.25	\$ 3,106,041.25
20.507	Federal Transit_Formula Grants			164,644.80	164,644.80

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
20.526	Bus and Bus Facilities Formula Program			1,326,545.00	1,326,545.00
Subtotal Department of Transportation				\$ 4,597,231.05	\$ 4,597,231.05
Total Federal Transit Cluster				\$ 4,597,231.05	\$ 4,597,231.05
Transit Services Programs Cluster					
Department of Transportation					
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities			\$ 2,517,490.38	\$ 2,325,668.07
20.516	Job Access And Reverse Commute Program			442,278.95	442,278.95
20.521	New Freedom Program			947,879.17	925,283.62
Subtotal Department of Transportation				\$ 3,907,648.50	\$ 3,693,230.64
Total Transit Services Programs Cluster				\$ 3,907,648.50	\$ 3,693,230.64
Highway Safety Cluster					
Department of Transportation					
20.600	State and Community Highway Safety			\$ 6,546,998.45	\$ 4,532,736.55
20.616	National Priority Safety Programs			6,139,628.96	3,758,361.19
Subtotal Department of Transportation				\$ 12,686,627.41	\$ 8,291,097.74
Total Highway Safety Cluster				\$ 12,686,627.41	\$ 8,291,097.74

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Clean Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.458	Capitalization Grants for Clean Water State Revolving Funds			\$ 7,378,474.40	\$ -
Subtotal Environmental Protection Agency				<u>\$ 7,378,474.40</u>	<u>\$ -</u>
Total Clean Water State Revolving Fund Cluster				<u>\$ 7,378,474.40</u>	<u>\$ -</u>
Drinking Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.468	Capitalization Grants for Drinking Water State Revolving Funds			\$ 19,459,417.35	\$ -
Subtotal Environmental Protection Agency				<u>\$ 19,459,417.35</u>	<u>\$ -</u>
Total Drinking Water State Revolving Fund Cluster				<u>\$ 19,459,417.35</u>	<u>\$ -</u>
Special Education Cluster (IDEA)					
Department of Education					
84.027	Special Education_Grants to States			\$ 248,983,190.78	\$ 227,221,389.99
84.173	Special Education_Preschool Grants			<u>6,521,628.11</u>	<u>5,995,065.57</u>
Subtotal Department of Education				<u>\$ 255,504,818.89</u>	<u>\$ 233,216,455.56</u>
Total Special Education Cluster (IDEA)				<u>\$ 255,504,818.89</u>	<u>\$ 233,216,455.56</u>
TRIO Cluster					
Department of Education					
84.042	TRIO_Student Support Services			\$ 3,083,656.76	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.044	TRIO_Talent Search			910,393.38	-
84.047	TRIO_Upward Bound			4,824,334.60	-
84.066	TRIO_Educational Opportunity Centers			1,411,279.76	-
84.217	TRIO_McNair Post-Baccalaureate Achievement			248,435.01	-
Subtotal Department of Education				\$ 10,478,099.51	\$ -
Total TRIO Cluster				\$ 10,478,099.51	\$ -
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			\$ 6,334,231.00	\$ 6,334,231.00
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services			11,370,623.56	10,235,252.00
93.053	Nutrition Services Incentive Program			1,594,243.00	1,594,243.00
Subtotal Department of Health and Human Services				\$ 19,299,097.56	\$ 18,163,726.00
Total Aging Cluster				\$ 19,299,097.56	\$ 18,163,726.00
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)			\$ 4,734,820.99	\$ (1,222,035.46)
Subtotal Department of Health and Human Services				\$ 4,734,820.99	\$ (1,222,035.46)
Total Health Center Program Cluster				\$ 4,734,820.99	\$ (1,222,035.46)

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Maternal, Infant, and Early Childhood Home Visiting Cluster					
Department of Health and Human Services					
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	University of South Carolina University of South Carolina	PO#2000012574 PO#2000029878	\$ 9,217,224.73 11,063.62 <u>29,210.25</u>	
				\$ 9,257,498.60	\$ 7,612,127.50
93.870	Maternal, Infant and Early Childhood Home Visiting Grant Program			180,528.27	85,375.08
Subtotal Department of Health and Human Services				<u>\$ 9,438,026.87</u>	<u>\$ 7,697,502.58</u>
Total Maternal, Infant, and Early Childhood Home Visiting Cluster				<u>\$ 9,438,026.87</u>	<u>\$ 7,697,502.58</u>
TANF Cluster					
Department of Health and Human Services					
93.558	Temporary Assistance for Needy Families			\$ 69,814,444.07	\$ -
Subtotal Department of Health and Human Services				<u>\$ 69,814,444.07</u>	<u>\$ -</u>
Total TANF Cluster				<u>\$ 69,814,444.07</u>	<u>\$ -</u>
CCDF Cluster					
Department of Health and Human Services					
93.575	Child Care and Development Block Grant	Signal Centers, Incorporated Signal Centers, Incorporated Signal Centers, Incorporated Signal Centers, Incorporated Signal Centers, Incorporated	CC&R FY2016 CC&R FY2017 CHILDHOOD ED DASHBOARD DEV & HOST DATED 10-15-2015	\$ 9,477,418.83 28.72 528,756.23 20,521.45 10,096.11 <u>50,188.73</u>	
				\$ 10,087,010.07	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			91,197,218.25	-
Subtotal Department of Health and Human Services				<u>\$ 101,284,228.32</u>	<u>\$ -</u>
Total CCDF Cluster				<u>\$ 101,284,228.32</u>	<u>\$ -</u>
Medicaid Cluster					
Department of Health and Human Services					
93.775	State Medicaid Fraud Control Units			\$ 3,535,531.57	\$ -
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			14,212,244.30	-
93.778	Medical Assistance Program	University Health Systems, Incorporated	GMEP	\$ 6,678,553,973.13 34,657,859.46	
				<u>6,713,211,832.59</u>	<u>17,908,238.07</u>
Subtotal Department of Health and Human Services				<u>\$ 6,730,959,608.46</u>	<u>\$ 17,908,238.07</u>
Total Medicaid Cluster				<u>\$ 6,730,959,608.46</u>	<u>\$ 17,908,238.07</u>
Disability Insurance/SSI Cluster					
Social Security Administration					
96.001	Social Security_Disability Insurance			\$ 56,498,417.50	\$ -
Subtotal Social Security Administration				<u>\$ 56,498,417.50</u>	<u>\$ -</u>
Total Disability Insurance/SSI Cluster				<u>\$ 56,498,417.50</u>	<u>\$ -</u>
Grand Total Federal Assistance				<u><u>\$ 14,113,135,541.94</u></u>	<u><u>\$ 1,833,198,083.87</u></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, 2017

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2017 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 (Schedule) for the State of Tennessee.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

A summary of the State's significant accounting policies and related information is provided below to assist the reader in interpreting the information presented in the Schedule.

A. Basis of Accounting

The State's *Comprehensive Annual Financial Report* and this Schedule are presented in accordance with generally accepted accounting principles, following the accrual or modified accrual basis of accounting, as appropriate for the fund structure. Negative amounts shown in the Schedule result from adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

B. Basis of Presentation

The information in the Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the State, it does not and is not intended to present the financial position, changes in net position, or cash flows of the State.

- **Federal Financial Assistance** – Pursuant to the Single Audit Act Amendments of 1996 and the Uniform Guidance, federal financial assistance is defined as assistance that non-federal organizations receive from or administer on behalf of the federal government in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), and other financial assistance.
- **Catalog of Federal Domestic Assistance (CFDA)** – The Schedule presents total expenditures for each federal financial assistance program as identified in the CFDA. The catalog is a government-wide compilation of federal programs, projects, services, and activities administered by departments and establishments of the federal government. Each program included in the catalog is assigned a five-digit program identification number

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(CFDA number). The first two digits of the CFDA number designate the federal agency, and the last three digits designate the federal program within the federal agency.

For programs that have not been assigned a CFDA number, the number shown in the Schedule is the federal agency's two-digit prefix followed either by "U" and a two-digit number identifying one or more federal award lines which make up the program or by "RD" if the program is part of the Research and Development (R&D) cluster. Also shown on the Schedule for each of these programs is an Other Identifying Number, which is required to identify the program or award.

- **Clusters of Programs** – A cluster of programs is a grouping of closely-related programs with different CFDA numbers that share common compliance requirements. The clusters presented in the Schedule are R&D, Student Financial Assistance (SFA), and other clusters as mandated by the Office of Management and Budget (OMB) in its most recent Compliance Supplement. The R&D and SFA clusters include expenditures from multiple federal grantors.
- **Direct and Pass-through Federal Financial Assistance** – The State received federal financial assistance either directly from federal awarding agencies or indirectly from pass-through entities. A pass-through entity is defined as a non-federal entity that provides federal assistance to a subrecipient. For federal assistance that the State received as a subrecipient, the name of the pass-through entity and the Other Identifying Number assigned by the pass-through entity are identified in the Schedule.
- **Expenditures/Issues Passed Through to Subrecipients** – A subrecipient is defined as a non-federal entity that receives a subaward from a pass-through entity to carry out part of a federal program. The amount of federal assistance that the State provided to subrecipients under each federal program (where the State is the pass-through entity, as defined above) is presented in a separate column in the Schedule.

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, or institutions within the State reporting entity have elected to use the 10% de minimis cost rate.

NOTE 4. UNEMPLOYMENT INSURANCE

State unemployment tax revenues, along with other payments and revenues, are combined with federal funds and used to pay benefits under the Unemployment Insurance program (CFDA 17.225). The State and federal portions of the total expenditures reported in the Schedule for this program were \$218,116,454.91 and \$49,429,091.02, respectively.

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NOTE 5. LOAN AND LOAN GUARANTEE PROGRAMS

A. Loan Programs Administered by Institutions of Higher Education

The following federal loan programs are administered by State institutions of higher education:

- 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)
- Nursing Student Loans (CFDA 93.364)

Expenditures in the Schedule for these programs include the value of new loans made during the year, the balance of loans from previous years for which the federal government imposes continuing compliance requirements, and administrative cost allowances.

Loan balances outstanding at year-end:

<u>Program</u>	<u>CFDA #</u>	<u>Balances Outstanding</u>
Federal Perkins Loan Program_Federal Capital Contributions	84.038	\$41,565,092.67
Nurse Faculty Loan Program (NFLP)	93.264	\$1,334,893.71
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	\$1,172,944.43
Nursing Student Loans	93.364	\$55,745.47

B. Other Loan Programs

Loans under the following federal loan programs are made by outside lenders to students at State institutions of higher education:

- Federal Family Education Loans (CFDA 84.032)
- Federal Direct Student Loans (CFDA 84.268)

The institutions are responsible for certain administrative requirements for new loans; therefore, the value of loans made during the year and accompanying administrative cost allowances are recognized as expenditures in the Schedule. The balances of loans for previous years are not included in the Schedule because the outside lenders account for those prior balances.